

City of Long Beach
Redevelopment Reports Requested by the City Council
on August 20, 2002
Volume III

- ❑ Background On Project Area Mergers
- ❑ Public Involvement In the Merger Process
- ❑ Merger Alternatives (Parameters)

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SECTION 1 INTRODUCTION

On August 20, 2002, the City Council asked the City Manager to complete a study on the proposed merger of the City's seven redevelopment project areas. They asked that the study describe the process for involving the City Planning Commission, the Project Area Committees, and the communities of Long Beach in the merger process. They also requested that the study evaluate parameters for a project area merger. This report will describe public participation in the project area merger process and also evaluate a range of potential parameters for a project area merger.

The California Legislature is currently reviewing proposals to use redevelopment agency funds to close a State Budget deficit by transferring tax increment to the Education Resources Augmentation Fund (ERAF). Some of the proposals being considered would significantly reduce the resources available to the Redevelopment Agency and each redevelopment project area in FY 2004 and future years. Volume III and the Tables in Volume IV evaluate the financial resources available to the Redevelopment Agency and the project areas before any transfer of Agency funding. Since the amount of the transfer to ERAF from the Redevelopment Agency is not known at this time, we have made no attempt to consider its impact in this Report.

SECTION 2 BACKGROUND INFORMATION ON PROJECT AREA MERGERS

Redevelopment project areas receive a share of the property tax referred to as tax increment. One redevelopment project area's tax increment generally cannot be spent in another project area. Some redevelopment project areas have large amounts of tax increment available for projects and programs while other project areas have very little. A project area's need for redevelopment does not always correspond to the amount of funding it receives.

A number of California redevelopment agencies have found themselves with project areas that were largely redeveloped and generating large amounts of tax increment. At the same time they also had newer project areas that were badly in need of redevelopment, but generated very little tax increment. The California legislature provided a solution by allowing redevelopment agencies to merge project areas. Community Redevelopment Law (CRL) allows redevelopment agencies to take several redevelopment project areas and merge them into a single redevelopment project area. Tax increment can be spent anywhere in the merged project area regardless of where it was generated.

Redevelopment agencies merge redevelopment project areas for three reasons: 1) to be able to transfer tax increment from one project area to another, 2) to improve their ability to issue bonds and 3) to more efficiently administer redevelopment programs. A merged project area can pool the tax increment from the component project areas and spend the funds anywhere in the merged project area where it is most needed. However, agencies cannot pool all of the tax increment in a merged project area. Each of the component project areas must first use its tax increment to pay current and pre-existing legal obligations such as housing set-aside, statutory pass-through, bond debt service and other debt. Any funds remaining after payment of the mandatory payments can be pooled and spent anywhere in the merged project area.

2.1 Other Redevelopment Agencies That Have Merged Project Areas

A large number of California redevelopment agencies have merged their project areas. A listing of some of those agencies and their reasons for merging follows:

City of Riverside: The Riverside Redevelopment Agency has twice merged two of its project areas. The Downtown and Airport industrial areas were merged several years ago, and another industrial area and non-industrial area merger occurred in 1997. The first merger was easily accepted by the public and Council because of a recognized need to financially support all project areas. Changes in the Agency's approach for the

second merger included: 1) accounting records are now maintained separately for the pre-merged areas and 2) the funds that can be transferred between areas are limited.

City of Sacramento: The Sacramento Redevelopment Agency merged four downtown areas in 1984 for increased financial flexibility. At the same time, they extended and coordinated the area's eminent domain limits and added one "logical" piece of property into the boundaries (a parking garage). Their merger "task force" was open to all interested parties, and the idea of merging the areas met with little resistance. The task force met monthly and only existed throughout the course of the merger.

City of Commerce: The City of Commerce Redevelopment Agency merged its project areas for increased financial flexibility in 1994, starting before AB1290 and finishing after. There is little parallel with Long Beach because of their small residential population and their more uniform, non-competing business community. However, they put considerable effort into public outreach to explain the merger. Staff met with the schools, individual large businesses and any business or public group they could identify.

City of Huntington Beach: The City merged its four project areas in 1995 because the rating on their Downtown area bonds had "fallen below investment grade." They made no changes to boundaries or time limits and presented the merger as a "straight financial transaction." They have no PACs and held no public meetings beyond the required hearings.

City of Fresno: The main impetus behind merging Fresno's Downtown Project Areas was financial. The Fresno Redevelopment Agency had many small project areas that did not generate sufficient tax increment to fund activities. Eight of ten project areas were existing; two new project areas were adopted during the merger. In all, approximately 1,500 acres were involved in the merger. The Agency worked in close cooperation with several citizen groups (including business associations and non-profit groups) and four PACs (including two newly formed PACs) to merge their project areas. The Agency reviews its project budget with PACs on an annual basis.

City of San Jose: The San Jose Redevelopment Agency merged its project areas before 1982. Since then, it has adopted, and merged, new project areas. The purpose of the merger was to transfer funds from the project areas in the northern portion of the city, which are primarily industrial parks, for use in San Jose's decaying downtown. The flow of funds from the industrial parks to the downtown continues to this day. The blighted state of their downtown helped to alleviate most public objections to the merger and subsequent concentration of spending.

Santa Cruz: Santa Cruz merged its project areas in October of 1990, after the Loma Prieta earthquake. The loss of property value in the Downtown Project Area put their bonds in technical default and merging the project areas across the City strengthened the Agency financially. The emotion caused by the earthquake helped generate support

for the merger, and allowed the Agency to add eminent domain without public resistance.

Inglewood: The Inglewood Redevelopment Agency merged its project areas in 1996. The City had several older project areas, generating large amounts of tax increment, and a new project area with very little increment. The older project areas had been largely completed and it was the intention of the Agency to transfer funds from the older project areas to the newer one. The Agency also wanted to strengthen its ability to issue bonds as Inglewood had hopes for a new NFL football stadium in the Century Project Area. There was no public opposition to the merger.

2.2 Consideration of Merging the Redevelopment Project Areas In Long Beach

New legislation (AB 1290) adopted by the California Legislature in 1993 simplified the process of merging redevelopment project areas. Agency staff began researching the possibility of merging the project areas in 1995. Staff determined that a merger was feasible and beneficial and informed the WLBI and Central PACs of the Agency's interest in a merger. The WLBI PAC informed staff and the Redevelopment Agency of their opposition to a merger of the project areas. At that time, staff proposed to merge all of the redevelopment project areas except the Downtown Project Area. On June 24, 1996, the Redevelopment Agency approved a contract with a redevelopment consulting firm to prepare the documents needed for a merger. At the same time, the Redevelopment Agency was preparing to issue bonds for the WLBI Project Area. In response to the proposed bond issue, the Westside Industrial Counsel (WIC) sued the Redevelopment Agency. Due to the litigation, staff continued their research but did not take any of the procedural steps required for a merger. The litigation eventually was concluded and on December 14, 1998, the Redevelopment Agency again authorized staff to explore the potential merger of its redevelopment project areas. Staff reviewed legal requirements and the experiences of other communities and concluded that merging the redevelopment project areas could provide the following benefits:

1. The Agency could combine tax increment from all seven redevelopment project areas and spend it where the need was greatest.
2. Bonds issued by a merged project area would be more secure and would carry lower interest rates.
3. The Agency could administer a single bond issue for a merged project area more easily than multiple bond issues for separate project areas.
4. Redevelopment programs could be consistently available in all project areas, not just those with available tax increment.
5. New project areas could initiate redevelopment more quickly using tax increment from other more mature project areas with less need.

Staff again presented information on the potential merger to the Agency Board, subcommittees, and Project Area Committees (PACs) this time including the new North

PAC. Knowing that the proposed merger was controversial and quite complex, the Redevelopment Agency employed a redevelopment advisory firm (Rosenow Spevacek Group, Inc.) to facilitate public and PAC participation. The consultant presented her findings to the Agency Board on May 10, 1999. Her report described PAC dissatisfaction with communication between the public, staff and the Redevelopment Agency. The Redevelopment Agency Board subsequently hired Rosenow Spevacek Group, Inc. to assist them with efforts to improve communication with the PACs. A summary of those efforts is contained in Rosenow Spevacek Group's September 10, 1999, report titled *Report Regarding Facilitation of Communications Between the Long Beach Agency Board of Directors and the Project Area Committees*. This report is available from the Redevelopment Agency on request.

The PACs expressed their opposition to merging the project areas to the Redevelopment Agency Board. Many PAC members did not want to give up tax increment as long as their project areas were still in need of redevelopment. Lacking public support, the Redevelopment Agency Board and staff ended their consideration of a project area merger in June 1999.

During 2001, Councilwoman Richardson held a series of meetings with staff to discuss options for increasing the funding for projects in the central area of Long Beach. Staff responded to questions and suggestions and analyzed many potential opportunities. Some of the alternatives discussed would only be feasible if the redevelopment project areas were merged. In the spring of 2002, the City Council began discussing the possibility of a project area merger and requested the assistance of staff to answer a large number of questions. Staff prepared memorandums in response to these questions. Staff became concerned that information on an important issue was being disseminated in an ad hoc manner. In July of 2002, staff collected the documents they had prepared in response to City Council questions into a single binder, sometimes referred to as the "Purple Binder" by staff due to the color of its cover page. This binder was distributed to each City Council Office and each of the Project Area Committee Chairs. Following the distribution of this collection of memorandums, staff presented an oral report to the City Council at their July 30, 2002, study session. The City Council again discussed the potential for a project area merger on August 20, 2002, and asked staff to prepare this report.

2.3 Advantages and Disadvantages of Merging Long Beach's Redevelopment Project Areas

2.3.1 Advantages

A combined project area is more easily administered and has greater financial strength than separate project areas. The primary advantage of a merger is that tax increment revenue can be pooled and spent on the Redevelopment Agency's highest priority projects regardless of where they are located.

2.3.1.1 Sharing of Resources

Each of Long Beach's seven redevelopment project areas receives tax increment based on the growth of property values since its adoption. One project area's tax increment generally cannot be spent in another project area. Some redevelopment project areas have large amounts of tax increment available for projects and programs while other project areas have very little funding. A project area's need for redevelopment does not always correspond to the amount of funding it has. If all of Long Beach's project areas were merged, all of the Redevelopment Agency's funds could be pooled and allocated to the highest priority projects and programs regardless of which project area they were located in.

2.3.1.2 Integrated Approach to Programs and Services

Because some project areas have great financial resources and others have very little funding, the Agency has not been able to offer uniform programs across all project areas. With a merged project area, the Redevelopment Agency could offer commercial façade improvement loans, new public facilities, infrastructure improvements, new community parks and economic development services in all project areas.

2.3.1.3 Greater Financial Strength

Redevelopment agencies often raise funds through the sale of bonds. Investors who purchase bonds generally consider bonds from larger project areas to be a safer investment because they have a more diverse tax base. If all seven Long Beach project areas were merged, it would create a very large and very diverse project area whose bonds would be considered a better investment than the individual bonds issued by each project area. The investors would know that if one project area had financial difficulties, funds from the other project areas could be used for bond payments.

2.3.1.4 Rapid Start-up Of New Project Areas

A merger would combine the financial strengths of older established Project Areas with the initial financial weakness of new project areas that have not had time to experience the growth needed to generate tax increment. Most new project areas must wait years before generating enough tax increment to begin redevelopment activities. If a new project area were added to a merged project area, there would be funds available to begin redevelopment activities immediately.

2.3.1.5 Combined Project Area Committee

A merged project area could retain the three existing Project Area Committees in their current configuration or the Redevelopment Agency and City Council could replace them with a single project area committee that contained representation from each of the seven redevelopment project areas. The combined PAC might be better able to balance the needs of all seven project areas in its recommendations to the Redevelopment Agency Board. The advantages and disadvantages of a combined project area committee and other PAC alternatives are discussed in more detail in *4.4 Alternative #3 – Retain Existing Project Area Committees* of this report.

2.3.2 Disadvantages

2.3.2.1 Time and Cost to Merge Project Areas

Merging the redevelopment project areas would require nearly a year of staff time and expenditures of \$300,000 to \$400,000 for consultants, an Environmental Impact Report and the distribution of information to the public.

2.3.2.2 Funding No Longer Assured

Each year, the City of Long Beach adopts its annual budget, which allocates the City's resources. Contained within the budget process is a competition for resources between Departments, programs and neighborhoods. There are always many worthy projects each year that compete for limited funding.

However, redevelopment project areas are shielded from some of this competition. There is a competition for funds on the part of projects within each project area, but generally there is not a competition for funds between project areas. Since it is difficult to transfer funds from one project area to another, Long Beach's seven project areas have a predictable stream of income. In the North Project Area, this revenue stream is substantial and the North Long Beach Project Area Committee (North PAC) has based their hopes for future redevelopment on this assured funding. If the project areas were merged and Agency funds pooled, the Redevelopment Agency Board and City Council would have the ability to fund their highest priority projects and no project area would have a guaranteed level of funding from year to year. Residents and businesses in project areas with ample funding may not wish to see tax increment moved to other project areas.

2.3.2.3 May Not Be Able to Complete Strategic Plans

The Redevelopment Agency has adopted strategic plans for the redevelopment of the North Long Beach Project Area and the Downtown Project Area. Staff and the PACs are preparing strategic plans for the West Long Beach Industrial (WLBI) and Central Project Areas. The strategic plans have incorporated projections of the future tax increment each project area receives. After a project area merger, project areas with the most funding might lose tax increment to project areas with less funding. Donor project areas might not, in the long run, have sufficient resources to complete their strategic plans. However, project areas that were primarily recipients of tax increment may gain an enhanced ability to complete their strategic plans.

2.3.2.4 Competition Between Project Area Committees

The North, Central and West Long Beach Industrial Project Area Committees (PACs) now advise the Agency Board on the expenditure of tax increment generated in their project areas. The Redevelopment Agency could retain the existing PACs after a merger. If all project area funds were pooled after a merger, the three PACs could find themselves competing for funding from the pooled tax increment. Some citizens have expressed the opinion that the competition for funds would breed divisiveness between the PACs and neighborhoods. They also fear that the competition for funds could politicize the allocation of Agency resources.

2.3.2.5 Diminished Influence of Project Area Committees

Of the seven redevelopment project areas, three have active project area committees. The North PAC, West Long Beach Industrial PAC and the Central PAC advise the Redevelopment Agency Board regarding their particular project areas. Each PAC has considerable influence on the decisions of the Agency Board within their project areas. If the project areas were merged, and each PAC forced to compete for resources, their influence over Agency Board decisions might diminish.

2.3.3 Issues of Fairness and Equity

In the past months, there has been considerable public discussion of a potential merger of the redevelopment project areas. Participants in this debate have asked questions regarding the fairness and justice of the proposed project area merger. Because of their subjective nature, staff cannot answer these questions through the presentation of research and analysis. Even though the questions cannot be easily answered, it is important to consider them in any evaluation of the proposed merger. Staff has attempted to summarize the more frequently voiced positions in the following list.

- The Redevelopment Agency should fund programs in the areas with the greatest need regardless of where tax increment is generated.
- The Central Project Area has redevelopment needs as great as the North Project Area, but it receives much less funding.
- The North and West Long Beach Industrial Project Areas receive tax increment generated by the Port of Long Beach. The Port is a citywide resource and the revenue it generates should be shared citywide.
- Redevelopment dollars should stay in the neighborhoods that generated them.
- When the North Long Beach Project Area was adopted in 1996, there was a promise made that the Project Area would get to keep its tax increment.
- The North Long Beach PAC waited years for their project area to generate large amounts of tax increment. The Central Project Area should be patient and wait until it generates large amounts of tax increment.
- The North PAC worked hard to create their Strategic Guide to Development; they cannot fully implement their Strategic Guide if the North Long Beach Project Area tax increment is moved to other project areas.
- Redevelopment dollars have flowed in the past to rebuild Downtown. It is now time to redevelop the City's residential neighborhoods. If the project areas are merged, the Redevelopment Agency will use all of the funds for Downtown development.
- Merging the project areas will set neighborhoods against each other. Any benefits would be out weighed by the divisiveness it creates.
- The Downtown Project Area has benefited the most from redevelopment; it should repay its debts to the housing fund, its debt to the WLBI Project Area and its debts to the City.
- The WLBI Project Area has lost funds to other project areas and these funds should be repaid.

- The WLBI Project Area has received most of its funding from tax increment generated by the Port for many years. It is time for WLBI to share this money with the rest of the City.
- The project areas should not be merged because the Agency Board and City Council cannot be trusted to fairly allocate the tax increment between project areas.
- A merger would politicize redevelopment in Long Beach.
- The project area merger should not be considered until all project areas have completed their strategic plans.
- The project area merger should not be considered until after a study of redevelopment in Long Beach has been completed by an independent think-tank.
- The WLBI Project Area should not have to share its tax increment. It is nearing the end of its life and needs all its increment to complete redevelopment in the few years it has left.

SECTION 3 PUBLIC INVOLVEMENT IN THE MERGER PROCESS

Community Redevelopment Law (CRL) generally restricts the use of tax increment to the project area that generates it. Redevelopment agencies are not allowed to freely move funds from one project area to another. At first glance, it would seem curious that CRL contains many barriers to the movement of tax increment from one project area to another, but allows redevelopment agencies to merge project areas. CRL allows for the sharing of revenues between redevelopment project areas, but only after a redevelopment agency has undertaken a lengthy research and public consultation process.

A redevelopment agency can merge redevelopment project areas by amending each project area's redevelopment plan. The process of amending a redevelopment plan is quite lengthy. The legislature's intent was that redevelopment agencies could transfer tax increment between project areas, but only after a process of complete disclosure and consultation with affected residents, businesses, property owners and other government agencies. The required process for the merger of redevelopment project areas would take approximately nine to twelve months to complete.

3.1 Steps in the Merger Process

The process for amending a redevelopment plan is the same as the process used to adopt a new redevelopment project area. As described in CRL the process can have as many as 50 steps. A full description of the plan adoption/plan amendment process is provided in Appendix A. The most important steps are listed here:

1. City Council designates a survey area (if adding new territory).
2. Review General Plan for compliance with state law.
3. Review property ownership and business interests of Agency, City Council and Planning Commission to determine if conflicts of interest exist.
4. Prepare Preliminary Redevelopment Plan.
5. Planning Commission selects project area boundaries, approves Preliminary Plan and forwards Preliminary Plan to the Redevelopment Agency.
6. Agency accepts the Preliminary Plan, directs staff to prepare the Redevelopment Plan and authorizes transmittal of information to the taxing agencies and officials.
7. City Council approves the retention of the existing project area committees or adopts a procedure for the election of a new project area committee for the merged project area.

8. Send information on the proposed adoption to the County Auditor, Assessor and Tax Collector, the State Board of Equalization and the governing bodies of all taxing agencies in the proposed (merged) project area.
9. Mail notice of preparation of the Draft Environmental Impact Report (EIR) to other government agencies.
10. Prepare Draft Environmental Impact Report.
11. Consult with project opponents for the purpose of securing all conflicting views prior to the final preparation of the Draft EIR.
12. Consult with bordering cities before completing Draft EIR.
13. County Fiscal Officer prepares a report identifying total assessed valuation of all taxable property within the Project Area.
14. Agency staff consults with taxing agencies that receive property tax from the project area.
15. Agency prepares Preliminary Report and sends it to each affected taxing agency.
16. Agency approves Draft EIR.
17. Agency refers the proposed Redevelopment Plan or Plan Amendments to the Project Area Committees and the Planning Commission for review.
18. Agency publishes notice inviting public comment on the Draft EIR.
19. Planning Commission reviews proposed Redevelopment Plan or Plan Amendments for conformance with the General Plan and Draft EIR and submits report and recommendations to the Agency.
20. Review public comments and prepare the Final EIR and mail to commentors.
21. Prepare *Report to City Council* on the proposed plan amendments.
22. Agency adopts the *Report to Council* and submits it to the City Council along with the Redevelopment Plan (or plan amendments) and Final EIR.
23. Agency adopts the "Rules for Owner Participation."
24. Advertise Agency and City Council public hearings.
25. Mail a notice of the public meeting to all project area residents, businesses, property owners and taxing agencies.
26. Project Area Committee reviews the proposed redevelopment plan (or plan amendments) and submits a report and recommendations to the Agency.
27. The City Council and Agency hold public hearings on the proposed merger.
28. City Council considers written objections and staff prepares responses.
29. Redevelopment Agency certifies Final EIR. Agency also adopts various resolutions required to merge the project areas.
30. City Council adopts resolutions and ordinance needed to amend the project areas.

3.2 The Role of the City Council, Planning Commission, Redevelopment Agency, Project Area Committees, Taxing Agencies, Consultants, Staff and the Public in the Merger Process

The purpose of the lengthy process required to merge redevelopment project areas is to ensure that all concerned parties have adequate information and there are sufficient

opportunities for public debate. Many organizations have important roles in the merger process, which will be briefly described here.

3.2.1 Redevelopment Agency

There are many groups that play important roles in the process of merging redevelopment project areas. The public, PACs, Planning Commission, and taxing agencies all have a voice in the process and it is the City Council that must give the final approval. The Redevelopment Agency is the organization that orchestrates the merger process. They are responsible for providing direction to the staff and consultants and are ultimately responsible for ensuring that the merger process, as required by CRL, is conducted openly, fairly and expeditiously.

3.2.2 Staff

Staff implements the policy and direction provided by Redevelopment Agency Board. It is the staff that will prepare the staff reports, conduct public meetings, consult with taxing agencies and provide information to the public and carryout the required steps in the merger process.

3.2.3 Consultants

All redevelopment agencies use consultants to help them adopt new project areas, merge project areas or add new territory to project areas. The Redevelopment Agency of the City of Long Beach usually uses the services of an attorney that specializes in redevelopment, a redevelopment consultant with experience in project adoption and an environmental consultant. Community Redevelopment Law mandates a very complex process for the adoption of a redevelopment project area, and prior experience is of great benefit. Individual redevelopment agencies do not adopt many redevelopment project areas. In their careers, most Redevelopment Agency staff will work on a few project area adoptions or mergers, whereas redevelopment attorneys and consultants can usually list on their resumes scores of plan adoptions, amendments and mergers.

Redevelopment consultants are usually responsible for extensive data collection and preparation of the major reports for a project adoption or merger. They prepare the *Preliminary Report* and the *Report to Council*. The *Preliminary Report* is sent to the taxing agencies and explains the reasons for selecting the project area, the blighting conditions, a description of the project area and how the project area will be financed. It also describes how the Redevelopment Agency intends to alleviate blight. The *Report to Council* contains important information that a City Council would need to consider a merger. It would describe the reasons for the proposed action, a financing plan and the Agency's plans for the elimination of blight including its financing plans.

The Redevelopment attorney would monitor the merger process to ensure that all of the legally required steps are performed correctly. The attorney would prepare the resolutions and ordinances needed to merge project areas and the new redevelopment plan or plan amendments. The environmental consultant would prepare the Draft and

Final Environmental Impact Reports that the City Council will need to consider a merger. It is very important that the procedural steps be followed and the documents prepared correctly. Many redevelopment plan adoptions and amendments have been invalidated due to procedural errors or deficiencies in the documents.

3.2.4 Taxing Agencies

After the adoption of a redevelopment plan redevelopment agencies receive a share of the property taxes generated in the project area. The adoption of a project area results in the reallocation of future increases in property taxes that would have otherwise been received by other government agencies such as school districts, county government, city government, community college districts, sewer districts and other special districts. CRL recognizes that taxing agencies have a special interest in the adoption or amendment of redevelopment plans because they could lose future tax revenues. Redevelopment agencies must notify the taxing agencies of an intent to merge or adopt project areas and provide the taxing agencies with a report that they can use to determine the future financial impact. Agency staff must contact each of the taxing agencies to ask if they have any concerns regarding the proposed merger or adoption.

It is anticipated that the taxing agencies will have little interest in a proposed merger of Long Beach's project areas. A merger would not affect any of the taxing agencies future revenues. However, if the addition of new territory is also proposed, the taxing agencies will pay close attention to, and possibly legally challenge, the addition of new territory if they feel that it does not meet the CRL legal requirements.

3.2.5 Planning Commission

The Planning Commission's role in the merger process is to review the preliminary plan, the proposed project area boundaries and the proposed redevelopment plan or plan amendment for conformance with the General Plan. CRL gives the Planning Commission a significant voice. If the Planning Commission recommends against the adoption or amendment of a redevelopment plan, it can only be approved by the two-thirds vote of the City Council.

3.2.6 Project Area Committees

The purpose of PACs under CRL is to represent the interests of low and moderate-income persons that could potentially be displaced by redevelopment activity. PACs are composed of project area renters, business owners, property owners and homeowners. If no potential for displacement exists, a PAC is not required. An agency is only required to have a PAC for three years. CRL contains an important role for PACs in the adoption or amendment of redevelopment plans. The Agency must submit the proposed redevelopment plan or plan amendment to each affected PAC. The PACs can submit a report and recommendation to the City Council. If a PAC recommends against the adoption or amendment of a redevelopment plan, the City Council can only adopt it with a two-thirds vote.

To encourage and ensure public involvement, the City of Long Beach greatly expanded the role of its PACs beyond that envisioned in CRL. The three PACs can continue to meet for the life of the project areas they represent and nominate three members to the Redevelopment Agency Board. PACs have taken an influential role in the adoption of new redevelopment plans in Long Beach. During the adoption of the North and Central Project Areas, the Redevelopment Agency asked the PACs to review all of the documents prepared for the adoption. The PACs carefully reviewed the proposed redevelopment plans sometimes using the advice of an independent attorney funded by the Agency. The PACs suggested changes to and authored many portions of the North and Central Redevelopment Plans.

3.2.7 Public

The PACs are designed to represent the public. The public is also given many opportunities to represent themselves in the merger process and meet with staff and public officials. In the past, the Redevelopment Agency has advertised and held public information meetings at community facilities to provide information and answer questions about a proposed plan amendment or adoption. Both the City Council and Agency approve many documents as part of the merger process. These approvals are given at open public meetings where any member of the public may address the Agency Board or City Council. The public may attend PAC meetings and address their concerns to the PAC membership.

The Redevelopment Agency must inform all affected members of the public of the proposed plan adoption or amendment. The Redevelopment Agency must send, by first class mail, a notice of the public hearing to adopt or amend the redevelopment plan to every household, property owner and business in a project area. The notice would consist of information regarding the public hearing and a brochure describing the proposed adoption or amendment. The public hearing must be advertised in a local newspaper for three successive weeks. If any property owner submits a letter against the adoption or amendment of a redevelopment plan, the City Council must approve responses to the letter before it votes to adopt or reject a redevelopment plan or amendment.

The Redevelopment Agency has taken extra efforts to provide the public with information. In the past, the public hearing notices have contained brochures explaining redevelopment. Important documents are made available at City Hall, at public libraries and recently over the Internet.

3.2.8 City Council

Agency Board is a separate public body whose members are appointed by the Mayor and City Council. The Redevelopment Agency has the authority to do many things without the concurrence of the City Council. However, for redevelopment plan adoptions and amendments the City Council has the final word.

The City Council would make the final decision regarding a project area merger. It is an important decision and CRL does not allow them to make it quickly. Before a City Council can merge redevelopment project areas, it must consider the environmental impacts (as described in the Final EIR), the feasibility of the proposed merger (as described in the *Report to Council*) and it must consider the opinions of the PACs, Planning Commission, taxing agencies and public.

3.3 Additional Public Input

This report has described the extensive public consultation required by CRL before a City Council may consider the merger of redevelopment project areas. The City Council and Redevelopment Agency could provide the following additional consultations beyond what is required by CRL.

- Hold public meetings in the project areas not represented by PACs.
- Consult with existing community organizations during the merger process in the four project areas without PACs.
- Post all merger documents and updates on the Redevelopment Agency's website.

SECTION 4 MERGER ALTERNATIVES (PARAMETERS)

Most redevelopment agencies that merged their redevelopment project areas did so in order to allow themselves the flexibility to pool tax increment and use it for the highest priority projects regardless of location. However, during recent public discussions regarding the proposed merger of the project areas in Long Beach, participants suggested that it would be better to place restrictions, or parameters, on how funds would be allocated to each project area. Council members and the public have suggested parameters such as, pooling half of the funds from each project area or establishing a schedule of transfers between the North and Central Project Area.

The City Council does not have a simple choice of merging or not merging the project areas. It has a wide range of alternatives. The City Council could do nothing, it could merge the project areas and place no restrictions on the Redevelopment Agency, it could merge the project areas and establish parameters for allocation of funds or it could merge only two or three of the seven redevelopment project areas. This section of the report will describe the range of alternatives available to the City Council and the advantages and disadvantages of each. This report will attempt to quantify these advantages and disadvantages. However, much of the debate has focused on the fairness or unfairness of particular alternatives. This report will not attempt to determine whether each alternative is fair or unfair. That evaluation is best left to the public discussion that will follow the issuance of this report. It is the hope of staff that this report will provide all of the information that members of the PACs, Agency Board, City Council and public will need to make their own evaluations of the inherent equity or inequity of each alternative.

4.1 Alternative #1 Status Quo – Take No Action

One alternative available to the City Council with regards to the proposed merger is to do nothing and to leave things as they are now. If the Redevelopment Agency and City Council take no action on the proposed merger, the restrictions on the transfer of tax increment from one project area to another will remain in place. Each project area would rely on its own resources to fund future projects and programs. This portion of the report will describe the financial resources currently available to each redevelopment project area. This section will also provide a baseline that the reader may use to measure the alternatives that follow.

4.1.1 Project Area Cash Balances

The purpose of this section of the report is to describe the amount of cash that each project area currently has available for projects and programs. Each Project Area has its own assets and its own revenues and expenses. The Redevelopment Agency prepares separate budgets for each of the seven redevelopment project areas. The redevelopment project areas have assets such as land and buildings and also assets in the form of cash. Some of the cash is readily available for projects and programs. Some of it is locked into legally restricted reserves, such as the bond debt service reserves held by trustees that can only be used in the event that the Agency defaults on a bond obligation.

Each year, the Redevelopment Agency adopts a budget that is described in a budget summary report. The budget summary report lists each project area's total assets, the amount of assets in the form of land and restricted reserves, voluntary reserves for debt service and cash available for projects and programs. This information on each project area's assets is summarized in Table 1 (See Volume IV of this report) of this report. The full budget summary report and the Agency's Annual Financial Report are available from the Redevelopment Agency on request.

As a whole, the Redevelopment Agency has an attractive fund balance. It has total assets of approximately \$132 million. However, more than half of this amount, \$65 million, is in the form of property and restricted reserves that cannot be used to fund Agency operations. The Redevelopment Agency has an available fund balance of \$68 million that it can use. However, the Redevelopment Agency sets aside \$15 million in a voluntary reserve to ensure that it will have sufficient funds for bond debt service payments should a recession cause tax increment to fall in future years. After deduction of the Voluntary Reserve, the Agency had \$53 million that it could spend for redevelopment activities at the beginning of fiscal year 2003 (September 30, 2002). The Redevelopment Agency's available fund balance is higher at the start of FY 2003 than in most years due to the sale of tax allocation bonds in FY 2002. The fund balances contain a large amount of bond proceeds that the Agency will spend over the next three years.

The Agency cannot spend these funds where it chooses. Each redevelopment project area has its own fund balance and money cannot be readily moved from one project area to another. Some of the project areas had very little cash at the beginning of the fiscal year while other project areas had substantial funds (see Table 1). The reasons for the disparate resource levels are as follows:

4.1.1.1 Central.

The Central Redevelopment Project Area starts each year with very limited funding. The project area has never received tax increment and its primary source of funds for operations has been the Redevelopment Agency's Project Income Fund. The Central Project Area has very little cash as staff only transfers funds into the Central Project Area as it is needed. The Central Project Area will receive tax increment for the first time in FY 2003.

4.1.1.2 Los Altos.

The Los Altos Project Area has a debt obligation to the WLBI Project Area. At the end of each fiscal year, all available Los Altos funds are transferred to the WLBI Project Area to repay the debt. The Los Altos Project Area then begins each new fiscal year with a minimal cash balance.

4.1.1.3 WLBI.

The WLBI Project Area has total assets of nearly \$22 million. However, this figure belies the project area's lack of funds for redevelopment activities. Of its total fund balance, \$17 million is in the form of property or restricted reserves. The project area maintains a Voluntary Reserve of nearly \$2.5 million. The WLBI Project Area starts the fiscal year with virtually no cash available for projects and programs. The WLBI Project Area's lack of funds for redevelopment activities is a result of its debt obligation to the Harbor Commission. In November of each fiscal year all available funds are used for the payment of the debt to the Harbor Commission. On December 5, 2002, the WLBI Project Area issued bonds and used the proceeds to repay the Harbor Commission obligation. The refinancing of the Harbor obligation will make available approximately \$2 million annually for WLBI redevelopment projects and programs.

4.1.1.4 Poly High.

Poly High is a small project area that generates a modest amount of tax increment each year. It started FY 2003 with \$524,000 available for redevelopment activities.

4.1.1.5 West Beach.

West Beach is another small project area. It began FY 2003 with \$372,000.

4.1.1.6 Downtown.

The Downtown Project Area has a large total fund balance of \$55 million. Of this amount, \$41 million is in the form of property or restricted reserves. The Downtown Project Area owns parking lots that primarily provide parking for downtown businesses.

The project area has sold bonds and maintains an \$8 million Voluntary Reserve. The Downtown Project Area began FY 2003 with \$5.6 million available for operations.

4.1.1.7 North.

The North Long Beach Redevelopment Project Area had \$41 million available for its projects and programs. This large sum is the result of a bond issue that raised \$36 million dollars for the project area and unspent funds from prior years.

4.1.1.8 Project Income Fund.

Community Redevelopment Law (CRL) requires redevelopment agencies to spend tax increment for the benefit of the project area that generated it. However, land sale proceeds, rents, loan repayments and other such revenues are not tax increment and do not have the same restrictions. The Redevelopment Agency has established a Project Income Fund for revenues that are not tax increment. The Project Income Fund can be used for eligible redevelopment expenditures in any project area. The Project Income Fund serves as a reserve fund for the Agency and is used to assist project areas with insufficient revenues. The Project Income Fund had approximately \$2 million as of September 30, 2002. The funds were generated primarily from land sale proceeds from the Downtown and WLBI Project Areas. Traditionally, the Agency used Program Income funds to support areas with little or no tax increment.

4.1.2 Current Project Area Revenues

The purpose of this section of the report is to describe the annual revenue that each redevelopment project area can use for its redevelopment projects and programs. Redevelopment project areas can use their cash balances for redevelopment activities, but they also receive annual revenues that can be used for projects and programs. The most important annual revenue source for the project areas is tax increment. Redevelopment agencies receive a portion of the property taxes paid each year by property owners in redevelopment project areas. The portion that a redevelopment agency receives is called tax increment. Property tax increment is generated by the growth of the value of real estate in the project area.

The year that a redevelopment project area is adopted is its base year. When the project area is adopted, the total assessed value of real estate located in the project area is calculated and is called the base year valuation. Property taxes generated by the increase in a project area's base year valuation are tax increment and are received by the redevelopment agency. All of the tax increment generated in a redevelopment project area is called the gross tax increment.

Table 2 compares the gross tax increment that each project area is expected to generate in FY 2003. The amount of tax increment generated by each of Long Beach's redevelopment project areas is very different. What accounts for these large differences? Some of the factors that affect the amount of tax increment a project area generates are described below:

New construction. The construction of new buildings increases the assessed value of a project area. Project areas such as West Beach and Downtown have experienced significant growth as older buildings were removed and replaced with more valuable high-rise buildings.

Increasing Property Values. The assessed value of some project areas has grown, not because of a large amount of new development, but due to an increase in the value of existing property. Rising property values can occur because a neighborhood is improving due to redevelopment or due to a general economic trend toward higher property values. The North Project Area's rapidly rising home values have increased the Project Area's assessed value substantially over the past few years.

Age of a Project Area. The growth in property values, from inflation and new development, produces tax increment. Older project areas have had more time to grow. Long Beach's project areas range in age from one year to 38 years.

Project Area Size. Large project areas usually have a larger assessed value. If a large project area grows 10%, it will produce much more tax increment than a small project area that grows 10%.

Table 2 lists the amount of tax increment each project area is expected to generate for FY 2003 and some of the factors that determine the amount of tax increment each project area currently generates. A quick description of each project area follows:

West Beach. The West Beach Project Area was adopted in 1964 and is Long Beach's oldest project area. Since adoption, all of the project area's original structures have been replaced with high-rise office towers. As a result, the project area's assessed value has grown from \$4 million to \$132 million, a substantial 3,171% increase. However, the project area is small and despite substantial growth will only generate gross tax increment of \$1,305,000 in FY 2003.

Poly High. The Poly High Redevelopment Project Area was adopted in 1973 and the Redevelopment Agency replaced or rehabilitated nearly all of the project area's housing units. The project area's assessed value has grown from \$5 million to \$46 million, but due to its small size the project area will generate only \$418,000 in FY 2003.

Downtown. The Downtown Project Area has gone from neglected to thriving in the 27 years since the Project Area was adopted in 1975. The development of hotels, office buildings, shopping facilities and a convention center have resulted in an assessed value increase from \$118 million to \$863 million. This growth has resulted in an annual tax increment flow that will be \$8 million in FY 2003.

WLBI. The West Long Beach Industrial Project Area encompasses the northern portion of the Port of Long Beach and an industrial area north of the Port. Since the project area was adopted in 1975, it has grown from an assessed value of \$162 million to \$667 million. Most of this growth in property values (70%) has occurred in the portion of the Project Area that is in the Harbor District. The project area will generate gross tax increment of \$6 million in FY 2003.

Los Altos. The Los Altos Shopping Center was located in an affluent area of East Long Beach. Despite this advantage, the shopping center was largely vacant when the Los Altos Redevelopment Project Area was adopted in 1991. The Redevelopment Agency rehabilitated the Los Altos Shopping Center and the project area's assessed value has increased from \$40 million to \$84 million. The project area is small and is only expected to produce tax increment in the amount of \$449,000 for FY 2003.

North. The North Long Beach Redevelopment Project Area was adopted in 1996. The project area's assessed value has grown only 36%, but because it is so large with a base year assessed value of \$3 billion, it will generate tax increment of \$11 million for FY 2003. The southern portion of the Port of Long Beach is located in the North Project Area, but accounts for less than a fifth of its tax increment. The growth in the project area's assessed value is primarily due to the rising prices of its housing stock rather than to new development.

Central. The Central Redevelopment Project Area was originally adopted in 1993, but never produced tax increment. It was readopted in 2001 and is expected to generate tax increment for the first time in FY 2003. The project area's expected tax increment for FY 2003 is \$2,476,000.

The preceding pages have described the total tax increment, or Gross Tax Increment, generated by each project area. Redevelopment agencies are not allowed to use all of a project area's Gross Tax Increment for redevelopment activities. CRL requires that a portion of the tax increment be used for other purposes as follows:

- a. 20% - Housing Set-aside. Each project area must transfer 20% of its tax increment to a special fund for the development of affordable housing.
- b. 2.34% - County Admin Fee. Los Angeles County deducts a fee for administering tax increment collection and distribution.
- c. 20% - Statutory Pass-Through. Each project area adopted after 1994 must pass through to the taxing entities 20% of its gross tax increment during the project's first ten years. Statutory Pass-Throughs are increased incrementally over the life of the Plan. Only the North and Central Project Areas are required to pay the statutory pass-through. The other project areas are exempt because they were adopted before 1994. The remaining tax

increment, called net tax increment is available for use by the project area.

The net tax increment for each project area for FY 2003 is provided in Table 3. The net tax increment provides a better estimate of the funds that each project area has for its projects and programs. However, it does not tell the whole story. Each project area has further sources of income in addition to tax increment. Each project area also has fixed expenses that must be met before funding can be devoted to redevelopment projects and programs. Table 4 shows the funding that each project area has for its programs after other income sources are added and fixed expenses subtracted. The resultant funds for projects and programs can be used to fund existing on-going programs (such as the Façade Improvement, Economic Development, Neighborhood Enhancement, ADA Improvement and other programs) or new previously unidentified projects and programs. A more detailed description of each redevelopment project area's income and expenses is contained in the Agency's adopted FY 2003 budget summary, which is available from Agency staff on request. The funds available for projects and programs in FY 2003 are as follows:

West Beach	\$176,210
Poly High	27,763
WLBI	2,604,188
Downtown	-793,452
Los Altos	0
North	3,310,227
Central	\$1,142,757

The funding available in the Downtown Project Area is a negative amount. The Downtown Project Area will need to withdraw funds from its reserves in order to pay its debt obligations and administrative expenses in FY 2003.

4.1.3 Future Project Area Revenues

Staff's current projections of net tax increment for each redevelopment project area over the next ten years are contained in Table 5 – Net Tax Increment Projection 2003-2012. More detailed tax increment projections are contained in Appendix A. The North, Downtown and West Long Beach Industrial Project Areas receive the most annual tax increment and will continue to do so in the future.

The tax increment will rise and fall in each project area as real estate values rise and fall. It is not possible to precisely predict how real estate values will rise or fall, or how much new development will occur. Staff attempts to provide conservative projections to the Redevelopment Agency to allow for future planning. The projections are prepared and reviewed frequently using the following method:

1. The Los Angeles County Assessors records are used to determine the current assessed valuation of each project area.

2. The assessed values are projected to increase approximately 2% annually.
3. Staff reviews projects that are under construction or about to begin construction and adds the value of these projects to the project area assessed values for future years.

Staff has compared past tax increment projections to the amount of tax increment actually received. Because the method used to project tax increment does not attempt to predict economic trends, projections made just prior to periods of strong economic growth will turn out to be less than actually occurred. Projections made prior to recessions will be turn out to be higher than actual receipts.

Staff used tax increment projections and projections of future project area expenses to estimate the amount of funding each project area will have over the next ten years. The projection of available revenues in Table 6 estimates the funds the project areas will have for programs after it pays for its fixed expenses such as debt service and for administration. More detailed spreadsheets are contained in Appendix B.

The Redevelopment Agency will have \$128 million over the next ten years for its programs. Almost half of this funding will be in the North Long Beach Project Area (\$63 million). Other project areas with significant resources will be WLBI (\$25 million), Central (\$24 million) and the Downtown (\$14 million) project areas.

4.1.4 Tax Increment Generated by the Port of Long Beach

Half of the Port of Long Beach is within the WLBI Project Area and half is within the North Long Beach Project Area. Table 7 provides an estimate of the amount of tax increment generated by the Port in the North and WLBI Redevelopment Project Areas. The Port has historically generated approximately 70% of the tax increment in the WLBI Project Area and 20% in the North Long Beach Project Area. The table also provides projections of the amount of tax increment that the Port will generate over the next ten years. The tax increment from the Port is included in the tax increment projections for the WLBI and North Project Areas.

The tax increment projection for the Port is based on a 2% growth in assessed value and the addition of projects that are now under construction. However, the Harbor Commission has long term plans for the development of the Port that are not included in these projections. Table 8 provides the long-term development plans for the Port of Long Beach. As seen in the tables, the Port's development plans have the potential to generate a significant amount of tax increment. However, these plans are not sufficiently developed to prepare tax increment projections based on the long-term build out of new piers and other facilities.

4.1.5 Mineral Rights

The producers of oil and gas pay a tax to Los Angeles County that is similar to the property tax. Increases in the amount of this tax creates tax increment and several of Long Beach's project areas receive tax increment from this source. The County

Assessor appraises Mineral Rights using the income approach to value in which the anticipated net income stream over the remaining productive life of the property is converted into a capital sum. Typically, the net income stream is a declining one since the economic life of the property is not perpetual. Economic life of an oil or gas producing property is determined when the operating expense curve and the income curve meet, thereby determining the life of the field being assessed. Economic life of Mineral Rights is also affected by other external factors including market price and demand, the costs of operation and extraction, and the investment of capital into new technologies to increase production. The City of Long Beach's Department of Oil Properties is constantly searching for new oil and gas opportunities. A significant new find could increase the amount of tax increment generated by the fortunate project area. While Oil Properties staff is examining potential oil and gas deposits in redevelopment project areas, not enough is known to make any prediction regarding the impact on future tax increment generation.

4.1.6 Project Area Time Limits

The WLBI, Poly High, West Beach and Downtown Project Areas were established many years ago (see Table 8) and are reaching the end of their lives. Over the next 12 years the redevelopment plans will expire for the West Beach (2009), Poly High (2013), Downtown (2015) and WLBI (2015) Project Areas. The Redevelopment Agency has only a few years to complete the redevelopment of these project areas.

4.1.7 Which Project Area Has the Most Resources

Some have taken the position that there is an imbalance of resources between the redevelopment project areas. They feel that the North Project Area has greater resources than the Central Project Area. Tables 5 and 6 provide ten-year projections of the revenues available to each project area. Over the next ten years, the Central Project Area is projected to generate net tax increment of \$28 million, whereas the North Project Area is expected to generate \$97 million over the same time period. Clearly the North Project Area will have greater resources to carry out projects and programs over the next ten years. However, others have made the argument that the North Project Area needs greater resources than the Central Project Area because it is so much larger. They feel that there is no disparity because the North Project Area's resources must be shared by a larger number of neighborhoods throughout the North Project Area's much larger land area.

We can test this argument by dividing the resources available to each project area by each project area's land area (Table 9). The Central Project Area is expected to have \$10,552 dollars per acre over the next ten years for its redevelopment programs. Using the total size of the North Project Area, it will have \$7,720 dollars per acre over the next ten years. However, the North Project Area contains many acres of water in the Port of Long Beach that will probably not require the use of project area resources. If we divide the North Project Area resources by the number of acres of land in the project area, the result is \$12,805 per acre.

Dollars per acre is not the only way to compare the resources of the seven project areas. Table 10 also compares project area resources on a per capita basis. The Central Project Area is smaller in acres than the North Project Area, but it has approximately the same number of residents. The 2000 census found 95,665 residents in the Central Project Area and 94,505 residents in the north Project Area. If we look at each project area's resources over the next ten years, North will have \$1,022 dollars per person while Central will have only \$289 per person. The other five project areas have much smaller resident populations and will have many more dollars per person than the Central or North Project Areas.

A better comparison of resources would be one that takes into account the amount of blight in each redevelopment project area. Unfortunately, we have no numerical rating for blight in each of the project areas. However, many federal programs use indicators of blight and poverty from the census to distribute grant funds to communities. It would probably be feasible to construct a formula for distribution of tax increment based on a project area or neighborhood's census data. Some preliminary census data for each of the project areas is given in Table 11.

Staff does not endorse the proposition that through the use of the numerical measures described above one can clearly determine the degree to which resources are fairly or unfairly distributed among the project areas. We have provided the information to answer questions that have been asked of us and leave it to the reader to find their own conclusions.

4.2 Alternative #2 Unrestricted Merger

CRL allows redevelopment agencies to merge redevelopment project areas. Most cities that have merged project areas have not imposed parameters or any restrictions on the ability of the redevelopment agency to move funds from one project area to another. This section of the report will provide an evaluation of an unrestricted merger of all of Long Beach's redevelopment project areas.

4.2.1 Pooling Funds from All Project Areas

When a redevelopment agency merges its project areas, it creates a single new project area that can be identified with a single name, can have a single redevelopment plan and can have a single project area committee. In many ways the old project areas retain some of their original identity. Each of the old project areas would receive the tax increment it generates. Each of the old project areas would first use its tax increment for the following:

- Payment of the County Administrative Fee.
- Payment of Housing Set-aside.
- Payment of Statutory Pass-Through.
- Payment of debt on bonds sold by the project area before it was merged.
- Payment of any debt incurred before the project areas were merged.

After each of the old project areas has satisfied the obligations listed above, the project area's remaining funds can be pooled into a single pot of money that can be spent in any part of the merged project areas.

Each merged project area would retain the time limits it had before the merger (see Table 9). For example, redevelopment in the West Beach Project Area would still terminate on January 1, 2009. On that date, redevelopment would cease in the West Beach portion of the merged project area and redevelopment would continue in the rest of the merged project area.

The merged project area would have a number of advantages over the older individual project areas. The Redevelopment Agency could pool all of the cash available for operations in each of the project areas, which totaled nearly \$53 million as of the beginning of FY 2003 (See Table 1), and use the funds for its highest priority projects regardless of which project area they were located in.

Each year, the Agency could pool the new revenues from all the project areas after satisfying the old project area's obligations. Had the seven project areas already been merged, the Agency would have funds in the amount of \$6.5 million for FY 2003 that could be pooled and allocated to its highest priority projects and programs (Table 4).

However, it should be noted that a merger does not create more tax increment; it merely permits the Redevelopment Agency to spend these funds where it chooses.

4.2.2 Greater Capacity to Borrow Funds

Most redevelopment agencies borrow funds by issuing bonds. Like other government agencies, the Redevelopment Agency of the City of Long Beach has borrowed from the future by selling bonds used for redevelopment projects. Selling bonds allows the Redevelopment Agency to obtain funds to solve the problems of urban decay that it would otherwise be unable to address for many years. If the Redevelopment Agency merged its project areas, it would not increase the amount of tax increment it receives, but it could use that same stream of tax increment to borrow more money.

When the Redevelopment Agency issues bonds it makes a promise that it will use tax increment to repay the bondholders. The Agency must issue separate bonds for each project area. The Agency can only promise to repay North Long Beach Project Area bonds with North tax increment and can only promise to repay West Beach bonds with West Beach tax increment. The Agency must issue separate bonds because it cannot freely transfer funds from one project area to another. CRL generally requires that tax increment be spent for the benefit of the project area that generated it.

The bond purchasers of North Long Beach bonds will judge the credit worthiness of the North Long Beach Project Area. Like a banker making a home loan to a family, they will look at the Project Area's financial strength and make a judgment regarding the project area's ability to repay the loan. If the bondholders believe that loaning money to a project area is risky, they will demand a high interest rate. The result of higher interest rates is the project area can borrow less money and will pay more for what it does borrow. Project areas selling bonds must also tell bondholders what their debt coverage ratio will be. If a project area will have \$1.3 million available each year and a \$1 million bond debt service payment, the bonds will have a 1.3 to 1 debt coverage ratio. When a loan to a project area is considered risky, bond buyers will require a high debt coverage ratio. A higher debt coverage ratio means that a project area can borrow less money with a given revenue stream.

Some large bond purchasers, such as mutual funds, will conduct their own research for each bond issue they purchase, while other investors will look at the rating given to a bond issue by one of the bond rating firms. However, other investors prefer bonds that are insured. Bond insurers will promise the bondholders that they will provide the funds for bond debt service payments if the Redevelopment Agency cannot. If a bond insurer considers a bond risky, they will charge more for insurance and require the Redevelopment Agency to maintain high debt coverage ratios. The Redevelopment Agency of the City of Long Beach's recent bond issues are considered risky by investors and the Redevelopment Agency purchased bond insurance. The Redevelopment Agency can issue insured or uninsured bonds; however, if the bonds are considered risky, the Agency will be able to borrow less money. The more perceived risk, the less money can be raised by selling bonds.

Individually, each project area has significant weaknesses that increase the cost of borrowing money (interest rate paid and cost of bond insurance). Staff recently sold bonds for the West Beach, WLBI, North, Downtown and Poly High Project Areas and is familiar with each project area's financial weaknesses as perceived by bond purchasers. These weaknesses are summarized below:

North. The North Long Beach Project Area's tax increment has grown very quickly and this project area will receive more tax increment than any other project area over the next ten years. One would assume that North Project Area bonds would be considered low risk by investors. However, as part of their examination of any bond issue, investors, bond rating agencies and bond insurers will ask many "what if" questions. The "what if" question that most concerns them is "what if real estate values in the project area fall, will the project area be able to pay debt service on the bonds?"

Increasing property values generates tax increment. North Long Beach generates more tax increment than any other project area (See Table 2), not because it has grown the most, but because it is the largest. Since the date of project adoption, the total value of real estate in the North Project Area has grown 36% (See Table 2). In contrast, the Downtown Project Area has grown 631%, but still generates less tax increment than North Long Beach. Since the North Long Beach Project Area has only increased 36% in value, it is more sensitive to fluctuations in real estate values than are the other project areas.

The bond purchasers may examine different project areas using different tests. In one test they might determine what would happen to a project area's ability to pay its debt service if real estate values fell 30%. If assessed real estate values in the North Project Area fell 30%, the project area's gross tax increment would fall from \$11.9 million to zero and the project area would be unable to pay any of its bond debt service. If the Downtown Project Area experienced the same 30% decline, its tax increment would only fall from \$7,792,000 to \$5,243,000.

North Long Beach is a risky project area for bond purchasers due to its sensitivity to real estate price fluctuations, but not so risky that the Redevelopment Agency was unable to insure its recent bond issue.

West Beach. The West Beach Project Area is very small and is made up of only five properties. If one of the properties went into bankruptcy and did not pay property taxes for an extended period, the West Beach Project Area's tax increment would decline substantially. Office towers constitute all of the developed property in the West Beach Project Area and the value of office buildings can fluctuate significantly with changes in the economy.

Poly High. The Poly High Project Area receives a large amount of its tax increment from taxes paid on oil and gas deposits. If the value of the oil and gas

deposits declines substantially, the taxes paid on the Poly High Project Area's oil and gas deposits would also decline.

Los Altos. Most of the tax increment in the Los Altos Project Area is generated by the newly developed Los Altos Shopping Center. If the Shopping Center were destroyed or became bankrupt, the project area's tax increment would fall substantially.

Downtown. Much of the Downtown Project Area's assessed valuation consists of office buildings, the value of which can fluctuate with the economy. The Downtown Project Area has sold a large number of bonds in the past, carries more debt than the other project areas and has less ability to reduce other spending to preserve its ability to pay debt service.

Central. The Central Project Area will generate tax increment for the first time in FY 2003. Investors will not purchase bonds from a project area that has no history of tax increment generation.

Each of the individual project areas has financial weaknesses that limit the amount of funds the Agency can borrow and increases the cost of borrowing. A merged redevelopment project area would be much more diverse and would not have the financial weaknesses of the individual project areas. If the project areas were merged, the tax increment from all of the project areas could be pledged to a future bond issue. Bond purchasers would view the merged project area as less risky, because if tax increment revenues declined in one project area, tax increment from another project area could be used to pay debt service. A merged project area would have a more diverse tax base. The merged project area would not be dependent on a single kind of real estate for its tax increment revenues, would not be adversely affected by the bankruptcy of a single tax payer and would not be as adversely affected by declining real estate values as any one of the existing project areas.

Staff has discussed the proposed merger with the City's financial advisors and with bond insurance firms. They agree that a merged project area would be able to issue more bonds at lower interest rates with lower bond insurance premiums. If the project areas were merged without restriction, the Redevelopment Agency would have the ability to use the bond proceeds in any redevelopment project area.

4.2.3 Reduce Voluntary Reserves

The Downtown, West Long Beach Industrial, Poly High, North and West Beach Project Areas have raised funds for redevelopment through the issuance of tax allocation bonds. Each of the bond series has a fixed debt service schedule that must be met each year. Each project area uses tax increment to fund its debt service payments.

Since bond debt service schedules are fixed, these costs can be accurately predicted many years into the future. However, tax increment, the revenue source used to pay

debt service, cannot be accurately predicted years into the future. The amount of tax increment the project areas receive rises and falls with the value of real estate and is affected by the decisions of taxpayers to appeal the assessed value of their property.

During the mid 1990's, real estate values fell dramatically across the state of California and the West Beach and Downtown Project Areas experienced a significant decline in the amount of tax increment revenue they received. Staff feared that if the downward trend continued, the West Beach and Downtown Project Areas would not be able to fully pay debt service. However, the real estate recession ended before any of the project areas came close to defaulting on their bonds.

After this sobering experience, staff began the practice of setting aside a reserve equal to one year of debt service payments for each project area. These reserves are called the "Voluntary Reserves" in the Redevelopment Agency budget because they are not required by the bond indentures or by law. The purpose of the Voluntary Reserve is to ensure that the project areas can pay debt service in years when tax increment falls. On July 22, 2002, the Redevelopment Agency adopted a policy requiring Voluntary Reserves for each project area.

The Voluntary Reserves are necessary because each redevelopment project area is solely responsible for its debt service payments. For example, if tax increment were to decline in the West Beach Project Area, tax increment could not be transferred from the Poly High Project Area to pay the West Beach Project Area's debt service. Each project area has a different mix of properties that contribute to tax increment. There are often years where property values fall for one kind of property more than others. In the past, tax increment has fallen in some project areas while remaining stable or growing in others.

After a project area merger, the Redevelopment Agency could use tax increment from any project area to pay debt service. If tax increment in West Beach were to decline due to a decline in the value of office buildings, funds from the Poly High Project Area could be used to pay West Beach's debt service. After a project area merger, the Redevelopment Agency would have the ability to transfer funds between project areas to ensure that each project area could meet its debt service payments. The Redevelopment Agency would have less need for its Voluntary Reserves. After a merger, the Redevelopment Agency could, for example, change its Voluntary Reserve Policy to a six-month debt service reserve. The Redevelopment Agency currently has \$14.8 million in combined Voluntary Reserves from all of the project areas (See Table 1). If the Voluntary Reserve was reduced to six-months debt service, \$7.4 million dollars could immediately be released for projects and programs.

4.3 Impact of Unrestricted Merger On Individual Project Areas

This report has described the benefits of an unrestricted merger for the City of Long Beach and the Redevelopment Agency as a whole. However, an unrestricted project area merger might affect the individual project areas differently.

West Beach. The West Beach Project Area is the Redevelopment Agency's oldest project area and has been completely redeveloped. All of the structures that existed at the time of adoption have been removed and replaced with office towers. Redevelopment in this project area is largely complete. After a merger, West Beach tax increment available after payment of administrative expenses and debt service would probably be used in other project areas.

Poly High. This project area generates a small amount of tax increment each year. Its primary need is rehabilitation of the commercial structures on Pacific Coast Highway. Due to its small size, it is not as likely as other project areas to contain high priority projects, and this project area's tax increment might be used to fund programs in other project areas after a merger.

Downtown. Most of this project area's tax increment is used for bond debt service and it would probably not be able to fund activities in other project areas after a merger. Since this project area encompasses Long Beach's central business district, it is likely that there will be future opportunities for large redevelopment projects and programs that would have a beneficial impact on the City as a whole. If these opportunities occur after a merger, the City Council and Redevelopment Agency might consider the use of tax increment from other project areas in the Downtown Project Area.

WLBI. After many years of redevelopment, the WLBI Project Area still has blight. There are non-conforming residential land uses in this industrial area that should be acquired and removed. The project area has inadequate parking and needs additional public improvement to address flooding. The project area has available tax increment. This project area has sufficient needs that the use of additional tax increment from other project areas could be justified. The Redevelopment Agency is preparing a strategic plan for the WLBI Project Area. However, if the Redevelopment Agency decided that WLBI projects had a lower priority than potential projects in other areas, tax increment could be transferred out of WLBI after a merger.

Los Altos. The Los Altos Project Area was adopted for the purpose of rebuilding the Los Altos Shopping Center. Since the completion of that shopping center, the project area has not been very active. All of the Los Altos Project Area's available revenues are used to repay a debt to the WLBI Project Area. After a merger, it is not likely that the Redevelopment Agency would fund additional projects or programs in the Los Altos Project Area. Los Altos revenues would likely be used to repay the debt obligation to the WLBI Project Area. However, after a merger, the Redevelopment Agency could transfer the Los Altos debt

service payment from the WLBI Project Area or to any other project area where funds were needed.

North. The North Project Area was adopted in 1996 and is the City's largest project area. It also generates the most tax increment and has substantial cash balances from a recent bond issue. The Redevelopment Agency has adopted a *Strategic Guide for the Redevelopment of the North Long Beach Project Area*. The Strategic Guide identifies projects and programs with costs exceeding this project area's substantial resources. If the project areas were merged, the North Project Area's projects and programs would compete for funds with other redevelopment project areas. Future funding would depend on how the Redevelopment Agency weighs the needs of the North Project Area against the needs of other project areas. Since the North Project Area's financial resources are so much greater than the other project areas, there is a possibility that some North tax increment would be used to support other project areas after a merger.

Central. The Central Project Area was adopted for a second time in 2001. Central is arguably the most blighted project area in Long Beach and its need for redevelopment greatly exceeds the resources that will be available to it over the next ten years. The Redevelopment Agency is preparing a strategic plan for this project area. After a merger, it is likely that funds from other project areas would be used to support the redevelopment of the Central Project Area.

4.3.1 Disadvantages of An Unrestricted Merger

Most of this portion of the report has described the advantages of an unrestricted merger. The disadvantages are those generally ascribed to project area mergers on pages 9-11 of this report. For the sake of brevity, they will not be repeated here.

4.4 Alternative #3 – Retain Existing Project Area Committees

CRL requires that redevelopment agencies establish project area committees (PACs) when new redevelopment project areas are adopted. The PAC serves as an advisory body to the Redevelopment Agency which must consult with the PAC concerning policy matters that deal with the planning and provision of residential facilities for residents displaced by the project and on other policy matters affecting the residents of the project area. CRL requires that PACs remain in existence for three years and most redevelopment agencies disband them after that period (see discussion of PACs in Volume II).

In Long Beach, the role of the PACs has evolved into one where they are consulted by the Redevelopment Agency regarding all matters related to their project areas. The redevelopment plans for the North and Central Project Areas contain language, suggested by PAC members, which requires Agency consultation with the PAC on specific matters and allows the PACs to remain in existence for the life of the project area. The North, Central and WLBI Project Areas have PACs and the other project areas do not.

If the Redevelopment Agency and the City Council merged all seven redevelopment project areas the Agency and City Council could choose one of the following options:

- Retain the existing Central, North and WLBI Project Area Committees.
- Disband all three PACs and form one new PAC to represent the merged project area.
- Disband all of the PACs and have no PAC for the merged project area.
- Hold new PAC elections and form new PACs for some or all of the project areas.

CRL gives the City Council the authority to determine the makeup of the PACs as well as the process used to select them. Project area committees have an important role to play in the merger process. The City Council would have to make its decisions regarding PAC representation at the beginning of the merger process.

4.4.1 Addition of New Territory

CRL requires that the make up of PACs be representative of the entire redevelopment project area. If the Redevelopment Agency were to add territory to a project area as part of the merger process, a new PAC election must be held since the new territory must be represented.

4.4.2 WLBI Stipulated Agreement

The Redevelopment Agency adopted the West Long Beach Industrial Project Area in 1975. The project adoption was challenged by a group of affected property owners. In 1976, the Redevelopment Agency and the property owners settled the litigation with a stipulated agreement. The property owners agreed to accept the validity of the new project area and in return the Redevelopment Agency agreed to limit its power of eminent domain, refrain from certain code enforcement actions, reactivate the PAC and provide it with funding for the life of the redevelopment plan.

The Redevelopment Agency adopted Resolution R.A. 8-81 as part of a stipulated agreement to end litigation regarding the WLBI Project Area. The resolution contained the following language regarding the WLBI PAC:

“The Agency agrees to cause the reinstatement of, and funding for, the Project Area Committee, which was suspended during the pendency of this litigation, for the duration of the Redevelopment Plan and all amendments, supplements or extensions thereof. Said funding shall be in full compliance with Health and Safety Code Section 33388.”

Any City Council action affecting the WLBI PAC would have to be consistent with Resolution R.A. 8-81.

The stipulated agreement would probably prevent the Agency from disbanding the WLBI PAC. Staff does not know if the stipulated agreement would prevent the Agency from combining the WLBI PAC into a larger PAC or holding a new PAC election. Staff would obtain legal advice on this matter if the Redevelopment Agency or City Council proposed any action that could possibly affect the terms of R.A. 8-81.

4.4.3 Advantages and Disadvantages

If a single, new project area committee were formed after a merger, it would include representation from all of the project areas and provide a voice to project areas such as Downtown, Poly High and Los Altos that are not represented by PACs. A single PAC for a merged project area would be better able to evaluate and compare projects from all redevelopment project areas since they would not represent a single project area. A single new PAC might avoid the competition between PACs for funding that could occur if the project areas were merged and the existing PACs retained.

If the existing PACs were dissolved, the Redevelopment Agency could lose the advice of citizens with long experience in redevelopment. It could also disrupt the long established relationships between the PACs, citizens, neighborhood organizations and city decision makers. The dissolution of the existing PACs or the use of PAC elections to create a new PAC or PACs could be viewed by PAC members and the public as an attempt to reduce their influence.

4.5 Alternative #4 – Use a Ranking Process to Allocate Tax Increment

During the public discussion of the proposed merger, several members of the public voiced the opinion that the allocation of tax increment in a merged project area would be more politically charged than it is today. Currently, the Redevelopment Agency prepares separate budgets for each redevelopment project area. The Agency Board must choose between competing projects in each project area budget. However, projects from different project areas generally do not compete for funding. The exception is affordable housing. The Redevelopment Agency's housing set-aside funds are pooled and can be used to fund any affordable housing proposal located anywhere in the City.

If the project areas were merged without restrictions, the Redevelopment Agency could review proposals from all of the project areas and, using its own judgment, select the projects that it feels are the most needed. Members of the public have expressed the fear that after a merger the Agency Board might select projects for funding based on political considerations rather than on the project's merit. They fear that neighborhoods with the greatest political clout will have the best chance of obtaining funding for their projects.

During the public discussions, speakers suggested that an objective evaluation process be created and used to allocate the pooled tax increment. Other government agencies commonly evaluate projects based on a point ranking system. A set of objectives for projects is created and projects are awarded points for their potential to meet each objective.

Here is an example of how such a ranking system might work. The Redevelopment Agency would work with the PACs to create a set of objectives for redevelopment projects. Such objectives might include: the removal of blight, the creation of jobs, the provision of services to neighborhood residents, improvement of the quality of neighborhood life, the generation of tax increment, sales tax and transient occupancy tax and the ability to generate additional private development. Each spring, at the beginning of the budget cycle, Agency staff would determine the amount of tax increment that would be available after payment of debt service and administrative expenses. Staff would work with the PACs to create a list of proposed projects and programs for the next fiscal year. A committee made up of staff, Agency Board members and PAC members would evaluate the proposed projects and programs and provide a 1 to 10 point score based on the degree to which it promoted each objective. Each project would receive a combined score from each member of the committee, and all of the projects and programs would be ranked according to the number of points received. The Redevelopment Agency's available funds would be allocated to the highest ranked projects until all funds were allocated.

4.5.1 Advantages and Disadvantages

The advantage of using a points ranking process to allocate tax increment is that it might be more objective and could blunt competition between neighborhoods for funding. A well-run process could allow project advocates a better opportunity to discuss the merits of their projects. Those participating in the points ranking process would have an opportunity to compare all potential projects citywide on a level playing field.

The disadvantage of a points ranking process is that it could extend the time needed to complete a redevelopment project. Currently, the Agency Board can approve projects in a few months if PAC consultation is needed or a few weeks if consultation is not necessary. This allows the Agency to seize redevelopment opportunities as they occur. Often agencies must respond quickly when an important parcel comes up for sale or a retailer or large employer is searching for new locations. If projects are only approved once a year as part of a points ranking process, the Agency could not respond quickly.

A points ranking process would take some authority and influence away from the Redevelopment Agency Board and invest it in the points ranking committee if one were formed.

4.6 Alternative #5 - Each Project Area Keeps a Fixed Portion of Its Revenues

The CRL restrictions on the transfer of tax increment from one project area to another provide assurance to the PACs that they will have a secure source of funds for future redevelopment projects and programs. If the project areas were merged, there would be no guaranteed funding for projects in an individual project area as all potential projects and programs from all project areas would compete for funds. One proposed compromise would be to guarantee each project area a fixed percentage of its revenues.

The Redevelopment Agency would implement this alternative by adopting a formula that would allocate tax increment. The formula would determine the amount of revenue retained each year by individual project areas and the amount contributed to an Agency pool of funds. The Agency pooled funds could be used in any redevelopment project area. Many formulas are possible. Readers of this document can easily construct their own allocation systems using the tables provided in this report. As an illustrative example, Table 12 describes the allocation of Agency revenues using two formulas.

4.6.1 Project Areas Retain 50% of Available Revenues

Assume that each year the project areas pay their fixed expenses including debt service, housing set-aside, inter-project loan payments and statutory pass-through. After payment of fixed expenses, each project retains 50% of its available revenues. Half of each project area's available revenues would be placed in an Agency Pool of funds that could be used by the Redevelopment Agency for its highest priority projects. If such a formula were in place in FY 2003, the project areas would retain \$3,630,573 and the Agency Pool would receive \$3,630,573.

4.6.2 Project Areas Retain 25% of Available Revenues

Change the formula to let the project areas retain 25% of their available revenues and provide 75% of available revenues to the Agency Pool of funds. The project areas retain \$1,815,288 and the Agency Pool would receive \$5,445,859.

4.6.3 Advantages and Disadvantages

This alternative is a compromise between the unrestricted merger and the current situation. Project areas would keep some guaranteed revenue each year and donate some to an Agency fund pool. The PACs would have a source of funds for which they would not have to compete. The Agency would have some ability to pool funds and proceeds towards their highest priority projects. The merged project area would still

gain the financial strength that comes with the ability to pledge the revenues of all project areas to new bond issues and the ability to transfer funds in the event of a potential default.

As a compromise, this alternative has all of the disadvantages of the unrestricted merger, but to a lesser extent. Each project area would have a smaller guaranteed income stream, project areas and projects would have to compete for the pooled funds and the ability of the PACs to influence Agency spending could diminish. For a more detailed description of the disadvantages of an unrestricted merger see pages 9 and 10.

4.7 Alternative #6 – Project Areas Keep All Bond Proceeds After a Merger and All Annual Revenues Are Pooled

The Redevelopment Agency sold bonds in June and December of 2002. As a result of those bond issues, redevelopment project areas have the following unspent bond proceeds:

Downtown	\$3.1 million
North	\$36.0 million
Central	\$3.6 million

During public discussion of the merger, one commentator proposed that the project areas be merged and that all of the annual revenues be pooled. However, each project area would retain the proceeds it received from the recent bond issues.

4.7.1 Advantages and Disadvantages

The Downtown, Central and North Project Areas each have detailed spending plans for the bond proceeds they currently hold. If each project area is allowed to keep its bond proceeds after a merger, then the spending plans can be completed. However, allowing each project area to keep its bond proceeds limits the ability of the Redevelopment Agency to fund its highest priority projects.

4.8 Alternative #7 – Allocate Revenues By Land Area or Population

Some of the suggested alternatives use a formula to allocate revenues between project areas. Some formulas are based on a percentage of the amount of tax increment that the project area currently receives. It can be argued that the amount of tax increment a project area receives has little to do with its need for redevelopment. The age and size of a project area have a big impact on the amount of tax increment generated. Project areas that experience a rapid rise in real estate values will receive more tax increment than a similarly sized project area that is growing slowly or not at all. It is the slow growing project area that probably has the greater need for redevelopment.

Perhaps project area resources could be divided using some other formula that could balance each project area's need for redevelopment. Ideally, if the Agency were to construct a formula to allocate tax increment according to need, it would use an index or scale giving the degree and amount of blight in a project area. Unfortunately, no such scale exists. However, we can examine substitutes for such a scale.

4.8.1 Land Area

A larger project area is likely to have more buildings and neighborhoods and possibly require more redevelopment projects and programs than a small project area. Table 15 provides a distribution of available resources by land area. The distribution shown in Table 15 assumes that all the project areas are merged and that all of the cash held by the project areas is divided by land area. The same table also provides an allocation of available revenues (revenues after payment of fixed expenses) by land area.

Under a formula that distributes resources by land area, the big project areas (North, Central and WLBI) get most of the resources while the small project areas (West Beach, Poly High, Downtown and Los Altos) get very little. A formula that divides resources by land area is an imperfect one. Project areas that are small and densely constructed, such as Downtown and West Beach, may have more need for redevelopment on a per acre basis than a project area made up primarily of single-family homes.

4.8.2 Population

Table 16 provides a similar distribution of resources by population. A distribution of tax increment by population is also flawed. The redevelopment of blighted industrial and commercial areas is also of importance to Long Beach. Industrial and commercial areas have very low resident populations.

The Department of Planning and Building prepared the population statistics for each project area from 2000 Census data. Groups of census blocks were aggregated to approximate the redevelopment project areas. The census block boundaries often do

not correspond with project area boundaries and all data is an approximation. For example, Table 11 Census data lists 110 residents for the Los Altos Project Area though we know that the Project Area contains no housing units. However, the approximate census data is sufficient for the purposes of this Report.

4.8.3 Other Distribution Criteria

A more complex formula for the distribution of resources could be constructed using data that measures poverty, crime, building code violations, overcrowding, jobs, vacant land or other indicators of the occurrence and magnitude of blight in a project area.

4.8.4 Advantages and Disadvantages

Using data to determine each project area's need for redevelopment dollars we could establish a method of allocation of redevelopment dollars that would reduce the political give-and-take that can accompany the allocation of funds by government bodies such as City Councils and Redevelopment Agency Boards. Constructing a formula that quantitatively measures the need of each project area for redevelopment would be very challenging, but not impossible. The federal government regularly uses formulas based on population and income to allocate funds between states and localities.

Using a fixed distribution of tax increment between project areas would, as compared to an unrestricted merger would limit the Agency Board's ability to move funds between project areas in order to select its highest priority projects. A project area that lost funding as a result of the use of the formula might not be able to complete the projects identified in its strategic plan. The creation of a formula to allocate funds might become a very political and divisive process. Project areas and neighborhoods would work hard to more heavily weight those statistics that would increase their tax increment allocation. Using a statistical formula to allocate resources at a local level would be a departure from the norm. In the United States, the federal and state governments often use formulas based on census data to allocated funds. However, local governments have almost universally chosen to use boards composed of elected or appointed representatives to allocate resources.

4.9 Alternative #8 –Reallocate Port Tax Increment

Members of the public have taken the position that the current rules for the distribution of tax increment, wherein each project area keeps the tax increment it generated, is the fairest way to allocate funds. A counter-argument voiced in the public discussion, is that some project areas receive tax increment from facilities such as the Port that do not belong to any particular neighborhood. This debate has generated a number of proposals.

The entire Port of Long Beach is located within the boundaries of the WLBI and North Redevelopment Project Areas. The southern half of the Port is in the North Project Area and the northern half of the Port is in the WLBI Project Area. Most land in the Harbor District is publicly owned and exempt from property taxes. However, private firms who lease public property pay a possessory interest tax in lieu of property tax. Possessory interest values are private property interests in publicly owned real property. A possessory interest constitutes a private right to the possession and use of publicly owned property for a period of time less than perpetuity. In appraising a possessory interest, the County Assessor seeks to value the present worth of the return a property will yield to the holder of the possessory interest over the effective term of their possession.

Los Angeles County places a value on the possessory interest of shipping firms who lease the piers and other facilities from the Port of Long Beach. When the value of the leases, or possessory interest rises, it creates tax increment. The projected tax increment generated by the Port of Long Beach is given in Table 7. The total tax increment generated by the Port over the next ten years is \$50 million. Of that total, the WLBI Project Area will receive \$36 million and the North Project Area \$14 million. Several proposals have been made to reallocate Port tax increment and they are described below:

4.9.1 Transfer North Port Tax Increment To The Central Project Area

Over the next ten years the portion of the Port in the North Long Beach Project Area will generate net tax increment in the amount of \$14 million. If all of this tax increment were transferred from the North to the Central Project Area, the Central Project Area's net tax increment over the next ten years would increase by 50% from \$28 million to \$41 million (see Table 15). The transfer would reduce the North Project Area net tax increment from \$97 million to \$83 million, a 14% reduction, over ten years.

4.9.2 Share North Port Tax Increment Between Central and North Based on Land Area

This scenario divides the North Port tax increment between the project areas based on land area. To determine the ratio, we use the land area of the North Project Area that is

outside of the Port (See Table 16). Using this method, the Central Project Area would receive 32% and the North Project Area 68% of the North Port tax increment. If the North Project Area were to transfer 32% of its Port tax increment to Central, the Central Project Area net tax increment would increase from \$28 million to \$32 million (a 16% increase) over ten years.

4.9.3 Divide All Port Tax Increment Equally Between the Central, WLBI and North Project Areas In Equal Shares

In this scenario, all of the Port tax increment from the North and WLBI Project Areas is allocated equally to the Central, North and WLBI Project Areas. The resulting allocation is described in Table 17. Under this allocation, the Central Project Area would gain an additional \$1.2 million and the North Project Area an additional \$1.0 million in FY 2003. The gains would be at the expense of the WLBI Project Area that would lose \$2.2 million in FY 2003. Over ten years, the Central Project Area would gain \$16.6 million; the North Project Area would gain \$2.9 million and the WLBI Project Area would lose \$19.5 million.

4.9.4 Allocate the Port Tax Increment To Those Project Areas Most Impacted By the Operation of the Port of Long Beach

Members of the public have suggested that the Port Tax Increment be allocated to the project areas that are most impacted by the operation of the Port of Long Beach. This is an intriguing concept, but one that would require considerable study to determine what the impacts of the Port are, and determine which project areas are most affected. The impact of the traffic generated by the Port is probably localized, but the air quality impact of the Port is spread throughout the entire City. It is impossible at this time to say how such an allocation plan would affect each project area.

4.9.5 Legal Requirements for the Reallocation of the Port Tax Increment

If the redevelopment project areas were merged, the Port tax increment could be easily reallocated between project areas. Some parties to the public discussion of a merger have suggested that the Port tax increment be reallocated without merging the project areas. The reallocation of resources without a merger will be more fully explored in Alternative #12. One suggestion was that all, or portions of, the Port be removed from the North Project Area and appended to the Central Project Area. Both the territory and tax increment would be transferred. However, the City Attorney's office is of the opinion that CRL does not permit a project area transplant of this kind.

4.9.6 Advantages and Disadvantages

The purpose of reallocating Port tax increment as it has most often been described would be to transfer a specified amount of tax increment from the North Project Area to the Central Project Area while maintaining the principle that each project area keeps the

tax increment it generates. The Port can be viewed as an exception to that principle as it is not an integral part of the collection of neighborhoods referred to as North Long Beach. The Port has also been called a citywide resource that does not belong to any specific neighborhood. This alternative would provide additional funding to the Central Project Area, but leave North Long Beach with sufficient funds to meet most of the objectives of its Strategic Plan.

The disadvantage of this alternative is that it does not allow the Agency Board the ability to allocate funds to its most important projects. If the Port tax increment generated in the WLBI Project Area were reallocated, it would cause a significant reduction in funding available to that project area. Since the WLBI Project Area receives most of its tax increment from the Port, the reallocation of tax increment described in Table 19 would result in the cessation of most redevelopment projects and programs in that project area.

4.10 Alternative #9 –Each Project Area Retains Its Tax Increment and Cash Balances But All Project Areas Support Bond Issues

Merging the redevelopment project areas provides the Redevelopment Agency with important financial advantages when issuing bonds. These advantages could be obtained without any reallocation of funds between the project areas. The project areas could be merged, but the amended redevelopment plans or a City Council resolution would require that the Agency allow each project area to retain its cash balances and the tax increment it generates. There would be no sharing of assets or tax increment. When the Redevelopment Agency issued bonds in the future, it would sell bonds based on a pledge of tax increment from all of the project areas. As described earlier, a combined bond issue would be viewed by bond purchasers as less risky and would have a lower interest rate, lower mortgage insurance costs and a more favorable debt coverage ratio.

When it sold bonds, the Agency would determine the tax increment contribution from each project area for annual debt service. After the bonds were sold, the Redevelopment Agency would distribute the bond proceeds to the project areas based on their contribution to debt service. Each project area would provide its fixed share of debt service. However, if one of the project areas experienced declining tax increment and were unable to pay its share, the other project areas would have to provide funds for debt service to prevent a default. The likelihood of one project area having to pay another project area's debt service is very low. The ability to prevent a default is the reason that merged project areas are considered strong borrowers. The prospect of one of Long Beach's project areas being unable to pay its debt service is very unlikely. Municipal bond defaults nationwide are quite rare. Bond purchasers are very risk-averse and reducing the possibility of a default from very unlikely to very, very unlikely makes a bond more desirable.

4.10.1 Advantages and Disadvantages

To those that wish to retain the existing distribution of resources between the project areas, this alternative is advantageous because the distribution would remain the same. The Redevelopment Agency would gain the benefits of issuing bonds from a merged project area. The Redevelopment Agency would probably be able to reduce its Voluntary Reserve and release additional funds for redevelopment projects and programs. This kind of merger makes it less likely that the Redevelopment Agency would ever default on any bond issue.

The Central Project Area is now receiving tax increment for the first time in FY 2003. However, the project area cannot borrow against this future tax increment flow through the sale of bonds. Investors will not purchase bonds from a project area without a proven history of generating tax increment. However, if the project areas were merged, the Central Project Area could sell bonds based on the financial strength of the

combined project areas. The Central Project Area could borrow future tax increment for today's projects and obtain significant resources without tax increment transfers from other project areas.

If one is opposed to the transfer of tax increment between project areas, a disadvantage is that if a project area's tax increment were to decline, other project areas would have to contribute tax increment to prevent a default. Also, staff is aware of the argument that the restricted merger described here would be the first step toward an eventual unrestricted merger of the project areas. The argument is that once the City Council has taken the step of a restricted merger, it would find it politically less difficult to eventually remove the restrictions. This theory is discussed in more detail in the section of this report entitled *Enforcement of Parameters*.

4.11 Alternative #10 – Retain Inter-project Loans, Repay Inter-project Loans

The WLBI Redevelopment Project Area has generated tax increment in the amount of \$113 million since the project area was adopted in 1975. Some of these funds were used for projects in other redevelopment project areas. WLBI tax increment was used for the Wrigley Market Place (Central Project Area), Anaheim/Atlantic Shopping Center (Poly High Project Area), the Los Altos Market Center (Los Altos Project Area), Pine Square (Downtown Project Area) and Long Beach Plaza (the first Long Beach Plaza constructed in 1980 in the Downtown Project Area). The transfers of funds from the WLBI Project Area to other project areas were structured as loans and are collectively referred to as the Inter-project Loans. The original amount of the Inter-project Loans and their use are described below and on Table 19.

- A. Loans from the WLBI Project Area to the Downtown Redevelopment Project Area to develop Pine Square:
- | | | |
|----------|-------------|--|
| 11/25/91 | \$2,500,000 | |
|----------|-------------|--|
- B. A loan from the WLBI Project Area to the Downtown Redevelopment Project that was used to complete the Long Beach Plaza:
- | | | |
|---------|-------------|--|
| 7/28/80 | \$6,770,831 | |
|---------|-------------|--|
- C. The Redevelopment Agency exchanged Agency owned property located in the WLBI Project Area for privately owned property at 243 Chestnut Avenue (Chestnut Garage), which is located in the Downtown Project Area. The WLBI PAC asked the Agency to provide the project area with funding equal to the value of the WLBI property that was given up in the exchange. To satisfy the PAC request, the Agency approved a promissory note to the WLBI Project Area that promises to repay the project area \$860,635 from the proceeds of the sale of 243 Chestnut.
- | | | |
|---------|-----------|--|
| 4/10/95 | \$860,635 | |
|---------|-----------|--|
- D. The West Long Beach Industrial Project Area provided loans to the Poly High, West Beach, Downtown and Central Redevelopment Project Areas. These project areas used the loan proceeds to assist the development of the Wrigley Marketplace:
- | | | |
|---------|--------------------|---------------|
| 7/11/95 | \$54,711 | to Poly High |
| 7/11/95 | \$226,340 | to West Beach |
| 7/11/95 | \$728,581 | to Downtown |
| 7/11/95 | <u>\$1,616,528</u> | to Central |
| Total | \$2,626,160 | |
- C. The West Long Beach Industrial Project Area provided a loan to the Los Altos Redevelopment Project Area that was used to develop the Los Altos Market Center:

6/5/95 \$12,700,000

- D. The West Long Beach Industrial Project Area provided a loan to the Poly High Redevelopment Project Area that was used to develop Notrica's 32nd Street Market:
 7/28/88 \$1,000,000

The Poly High Project Area repaid all of its loans from the WLBI Project Area in FY 2002.

The Agency used Inter-project Loans in the past to move funds from one project area to another. However, the City Attorney has advised against the continuance of this practice and the Redevelopment Agency will not create new Inter-project Loans in the future.

Another parameter suggested during discussions of a potential merger is that after a merger, all of the Inter-project Loans be retained. There is a misconception that a project area merger would automatically eliminate all of the Inter-project Loans. After a merger, all of the project areas retain their financial obligations including Inter-project Loans. However, the Inter-project Loans would have little meaning after an unrestricted merger. For example, the Los Altos Project Area has been providing the WLBI Project Area with loan payments of approximately \$800,000 each year. If the project areas were merged without restrictions, the Los Altos Project Area would still provide loan payments to WLBI. After the loan payment was made, the Agency Board would have the option of leaving the funds in WLBI, moving them back to Los Altos or moving them to another project area. When the Agency is free to move funds between project areas, Inter-project Loan payments would become a mere formality and have no impact on where funds were spent. If the intent was to allow the WLBI Project Area to keep the Inter-project Loan payments, the project areas could be merged with that condition (or parameter).

In recent years, only the Poly High and Los Altos Project Areas have provided Inter-project Loan payments to the WLBI Project Area. The Downtown, Central and West Beach project areas are not providing payments to WLBI and the terms of their loan agreements do not require annual payments. Participants in the public discussion of a merger have suggested that, with or without a merger, the Agency should create a repayment plan for the Inter-project Loans that would achieve the repayment of all of the loans before the WLBI Project Area's redevelopment plan terminates in 2015 and redevelopment in that project area ceases.

The Poly High Project Area used proceeds from its 2002A bonds to repay its entire obligation to the WLBI Project Area in the amount of \$478,000. Table 20 provides a repayment plan for the Inter-project Loans. Table 20 assumes that the Redevelopment Agency adopts an Inter-project Loan Repayment Schedule. The schedule would use equal annual payments to retire the Inter-project Loans by the end of FY 2015. The

adoption of the schedule on Table 20 would require payments from the Downtown, Central, West Beach and Los Altos Project Areas totaling \$3,384,000 per year.

4.11.1 Advantages and Disadvantages

Merging the project areas with a requirement that the Redevelopment Agency allow the WLBI Project Area to retain Inter-Project Loan payments has the same advantages and disadvantages of alternatives that allow project areas to keep their tax increment. The primary advantage is that it would provide the WLBI Project Area with a source of funds for which it would not have to compete with other project areas. The disadvantage is that it limits the ability of the Agency Board to fund its highest priority projects.

The Redevelopment Agency Board could adopt a plan for the repayment of the Inter-project Loans. The Redevelopment Agency Board could adopt a repayment plan with or without a merger.

The adoption of the an Inter-project Loan Repayment Plan listed on Table 20 is advantageous if one wishes to increase the resources of the WLBI Project Area at the expense of the Downtown, Central and West Beach Project Areas. It is also advantageous if one is of the opinion that the Inter-project Loans should be repaid as a matter of principle. The disadvantage of the repayment plan is that it would result in the transfer of resources from the Downtown, Central and West Beach Project Areas, which may have projects of greater importance to the Redevelopment Agency than projects in the WLBI Project Area.

4.12 Alternative #11 - Merge only North and Central

The Redevelopment Agency has devoted considerable effort to the revitalization of downtown Long Beach. Redevelopment activities in the Downtown and West Beach Project Areas have resulted in the establishment of downtown as the City's dynamic center for business, the arts and tourism. In recent years, the Redevelopment Agency has changed its emphasis. The Agency's redevelopment activities now place more emphasis on neighborhood improvement and the quality of life for City residents. The Agency's most recent budget contains much more money for public works projects such as new libraries, parks and street and alley improvements than it does for traditional redevelopment activities such as the development of commercial property.

Some in the community feel that, over the last 20 years, the Redevelopment Agency has concentrated too much effort and too many of its resources in the downtown at the expense of the neighborhoods. They are concerned that an unrestricted merger of the project areas could result in the reallocation of funds from neighborhood improvement to large downtown development projects.

Different combinations of project areas could be merged depending on the goals of the Agency. If the goal was to prevent the transfer of tax increment into downtown, all of the project areas except Downtown and West Beach could be merged. If the goal was to prevent the transfer of tax increment from the WLBI Project Area, all of the project areas except WLBI could be merged.

Staff was asked if it would be possible to transfer North Long Beach's Port tax increment to the Central Project Area in such a way that would allow Central to use the revenues to sell bonds. It would be possible to merge only the Central and North Project Areas and include a tax increment distribution plan in the amended redevelopment plans. Each project area would retain its tax increment except the North Port tax increment, which would be transferred to the Central Project Area.

4.12.1 Advantages and Disadvantages

The advantage of merging a few project areas instead of all of the project areas is that the pooling of tax increment can be limited to a few select project areas. However, a merger of a few project areas does not provide the financial benefits that would be achieved through the merger of all of the project areas. Bond purchasers would view a bond issued by all seven merged project areas as more secure than a bond issued by two or three merged project areas. If the Agency's goal is to limit tax increment transfers between project areas, this can be accomplished by placing restrictive language in the redevelopment plans as part of a merger.

4.13 Enforcement of Parameters

The Redevelopment Agency and City Council can only merge the project areas through the amendment of each redevelopment plan. This report has described that lengthy and difficult process in the section titled *Public Involvement in the Merger Process*. The project areas could be merged without restriction or they could be merged with parameters. The parameters could be enforced in one of two ways. The parameters could be included in Agency and City Council resolutions or they could be incorporated into the amended redevelopment plan or plans.

4.13.1 Resolutions

The use of a resolution provides the most flexibility. The parameters that the Redevelopment Agency or the City Council may wish to have today, may be considered a hindrance by a City Council five or ten years in the future. The City of Long Beach's challenges and goals may change over time. A few years ago, the Redevelopment Agency focused its efforts on creating new retail facilities in Long Beach. Today, there is a great emphasis on neighborhood improvement and the quality of life. If the parameters are memorialized in resolutions of the Redevelopment Agency and City Council, the resolutions can readily be revised by a future City Council or Redevelopment Agency if its goals change. A resolution can be made more difficult to change by requiring a 2/3 vote to amend it.

4.13.2 Redevelopment Plan

Merger conditions or parameters can also be placed in the text of the redevelopment plans. When the project areas are merged, the redevelopment plans could be amended to specify a method for the distribution of tax increment after a merger. The language of the redevelopment plans would bind the Redevelopment Agency and City Council unless the plans were amended. As described earlier in this report, changing or amending a redevelopment plan is a long and difficult process. The process to change or amend a redevelopment plan is the same process used to merge redevelopment project areas.

4.13.3 Advantages and Disadvantages

It would be better to incorporate merger conditions or parameters into resolutions if the goal is to allow the City Council and Redevelopment Agency the greatest flexibility to change their policies to deal with future challenges and opportunities. Resolutions can be changed by a vote without a lengthy procedural process. Resolutions can be made more difficult to change by incorporating requirements that a public hearing be held before considering an amendment or a 2/3 vote could be required to amend a resolution.

A merger of the project areas could result from a negotiated compromise between stakeholders or interested parties. The stakeholders may desire the assurance that their carefully crafted agreement could not be changed by a simple vote of a future City Council. The best way to provide such assurance would be to incorporate the restrictions or parameters into the amended redevelopment plans. All of the project area redevelopment plans would have to be amended to merge the project areas. A future City Council or Redevelopment Agency would be bound by any parameters incorporated into a redevelopment plan and could not change the parameters with a single vote. To change any of the parameters, a future City Council would have to amend the redevelopment plans. The plan amendment process is the process used to merge the project areas. The redevelopment plan amendment process usually takes nine months to a year to complete and requires public hearings and extensive public notification.

There is no way to absolutely prevent a future City Council from changing agreed upon parameters. However, incorporating parameters into the redevelopment plans assures stakeholders that time requirements for a plan amendment and the public hearing and notification requirements will provide them an opportunity to participate in the decision making process.

4.13.4 The Slippery Slope

During the public discussion of potential parameters, some participants made the argument that a merger, even with desirable conditions or parameters, should not be approved because it will make it easier for a future City Council to implement unacceptable changes. For example, the project areas could be merged with a parameter that allows each project area to keep the tax increment it generates. The fear is that, once the project areas are merged, it would be easier for a future City Council to change the parameter and allow unrestricted transfers of tax increment.

From a procedural standpoint, the argument is not correct. The process to merge project areas and the process to change parameters is the same. If the project areas are not merged now, a future City Council could still merge the project areas using the redevelopment plan amendment process. If the project areas were merged and a future City Council wished to change the parameters, it would have to use the same plan amendment process.

However, an argument can be made that changing the existing rules for the allocation of tax increment is a slippery slope. If the process is changed once (project areas are merged), thereafter it would politically less difficult to implement future changes.

4.14 Moving Funds Without A Merger

One benefit of merging the redevelopment project areas is the ability to freely transfer tax increment from one project area to another. However, it is possible to transfer resources from one project area to another without a merger. This section will describe the methods for moving funds allowed by CRL without merging the project areas.

4.14.1 Affordable Housing

Redevelopment project areas must set-aside 20% of their gross tax increment for affordable housing. In some communities, the redevelopment agency uses the set-aside funds to create affordable housing. In other communities the agency transfers the funds to the city department that is responsible for affordable housing. The City of Long Beach has assigned responsibility for affordable housing to the Housing Services Bureau and the nonprofit Housing Development Company. The Redevelopment Agency transfers its set-aside funds from each project area into the City's Housing Development Fund that is administered by the Housing Services Bureau and the nonprofit Long Beach Housing Development Company. Either the City Council or the Housing Development Company must approve expenditures of tax increment set-aside.

The Housing Services Bureau can use the set-aside funds anywhere in the City of Long Beach to assist with the construction of new housing or the rehabilitation of existing housing for low and moderate-income households. If the Redevelopment Agency wanted to provide additional resources to one of the project areas, it could ask the Housing Services Bureau to concentrate the expenditure of housing set-aside funds in that project area. The rehabilitation of existing housing and the construction of new housing can be a powerful tool for the alleviation of urban blight. The Redevelopment Agency and Housing Development Company have greatly improved Atlantic Avenue through the creation of the Atlantic Villas and Renaissance Walk housing developments.

The Redevelopment Agency is expected to transfer housing set-aside in the amount of \$5.8 million to the Housing Development Fund in FY 2003. Over the next ten years the Agency is expected to set-aside \$83 million for affordable housing (See Table 21). The Redevelopment Agency has the ability to raise larger amounts for affordable housing. The Redevelopment Agency has never used the housing set-aside funds for a bond issue. The Redevelopment Agency could pledge its housing set-aside to a bond issue of up to \$100 million, depending on interest rates. All of the proceeds of a housing set-aside bond issue would have to be used for affordable housing.

There are two limitations on the ability of the Redevelopment Agency to concentrate its housing set-aside in single project area. The Redevelopment Agency adopted resolutions as part of the adoption of the North and Central Redevelopment Project Areas that state:

“Tax increment revenues from the Project which are required to be deposited in a low- and moderate-income housing fund will be paid into the city-wide housing development fund pursuant to existing policy; however, the Agency will assure that expenditures for low- and moderate-income housing in the Project will not be less than the amount contributed to the housing fund from the Project.”

The North and Central Project Area Committees were concerned that housing set-aside funds from their project areas would be used to benefit other areas of the City and suggested the language of the resolutions. The resolutions do not require the Agency to spend North set-aside in the North Project Area each year. In any given year the set-aside can be used anywhere in the City. However, the resolutions do require that, over time, total housing expenditures in the North Project Area equal the project area's housing set-aside payments. The same requirement holds true for the Central Project Area. If the Agency were to provide additional resources to a single project area over many years by concentrating housing expenditures, it might have to amend the two resolutions.

4.14.2 Transferring Tax Increment Between Project Areas Without A Merger

Generally, CRL requires that tax increment be spent for the benefit of the project area that generated it. It is possible to transfer limited amounts of tax increment between redevelopment project areas without merging the project areas. The methods are described below:

4.14.2.1 Payment of Housing Set-aside for Another Project Area

Community Redevelopment Law (CRL) generally requires that tax increment be used for the benefit of the project area that generated it. However, CRL does allow one project area to pay housing set-aside for another project area:

“33334.3 Agencies that have more than one project area may satisfy the requirements ... of this section by allocating, in any fiscal year, less than 20 percent in one project area, if the difference between the amount allocated and the 20 percent required is instead allocated, in the same fiscal year, to the Low and Moderate Income Housing Fund from any tax increment revenues from other project areas. Prior to allocating funds pursuant to this subdivision, the agency shall make the finding required by subdivision (g) of Section 33334.2.”

In this way, one project area can provide financial assistance to another project area through its housing set-aside payment. This method is best explained with an example. The North Redevelopment Project Area will have a housing set-aside obligation of more than \$2.0 million for FY 2003. The Downtown Project Area will have a housing-set aside obligation of \$1.5 million. Staff expects that each project area will transfer tax increment to the Housing Development Fund to meet its set-aside obligation. However,

the North Project Area could provide a payment of \$3.5 million to the Housing Development Fund in fulfillment of the North and Downtown Housing Set-aside obligation. If the North Project Area paid the housing set-aside obligation for the Downtown Project Area, the Downtown Project Area would have an additional \$1.5 million for its projects and programs. The Downtown Project Area would use the \$1.5 million that it would have paid to the Housing Development Fund for other uses. Using the method described above, the North Project Area could provide \$1.5 million in assistance to the Downtown Project Area without transferring any funds to Downtown.

The amount of assistance that one project area can provide to another using this method is limited by the size of the housing set-aside payment. The North Project Area could not provide more than \$1.5 million in annual assistance to the Downtown Project Area using this method. The 2003 Housing set-aside payments for each project area are listed below:

Central	\$485,000
Downtown	1,529,600
Los Altos	88,000
North	2,218,000
Poly High	82,000
West Beach	256,000
WLBI	1,223,000

4.14.2.1.1 Payments to the City

One project area can assist another project area by providing a payment to the City. The City could loan the same funds to another project area. For example, if the Redevelopment Agency wanted the Downtown Project Area to provide \$1 million assistance to the Central Project Area, the Downtown Project Area would provide a \$1 million payment to the City and the City Council would loan \$1 million to the Central Project Area. The Redevelopment Agency cannot freely transfer money from a project area to the City, the payment must satisfy an existing obligation. Only project areas that have debts to the City can transfer cash to the General Fund. The Downtown, Central and Poly High have debt obligations to the City and therefore could provide payments to the City that could be loaned to another project area. The current project area debts to the City as of June 30 ,2002 were:

Downtown	\$93.6 million
Poly High	\$4.2 million
Central	\$14.9 million

A variation on this method is that a project area can provide assistance to the General Fund by paying for a General Fund obligation. The City Council could then provide a loan to another project area. As an example, let us assume that the Redevelopment Agency wants the North Project Area to provide assistance to the Downtown Project Area. We will also assume that the City is planning to use \$1 million from the General Fund to build a park in the North Long Beach Project Area. The North Project Area would pay for the park since the creation of public improvements is an allowable use of tax increment. The City would have an extra \$1 million that it would not have to spend on the park and would loan it to the Downtown Project Area.

The amount of financial assistance that one project area can provide to another using this method is limited by the amount of General Fund dollars allocated to public works in the donor project area. If there were no park being built with General Fund dollars in North Long Beach, this method of providing assistance from the North to the Downtown Project Area would not be possible. Staff has reviewed proposed General Fund expenditures for public improvements in redevelopment project areas and found that the opportunities for this kind of assistance from one project area to another are quite limited.

4.14.2.1.2 Project Income Fund

Community Redevelopment Law requires redevelopment agencies to spend tax increment for the benefit of the project area that generated it. However, land sale proceeds, rents, loan repayments and other such revenues are not tax increment and do not have the same restrictions. The Redevelopment Agency has established a Project Income Fund for revenues that are not tax increment. The Project Income Fund can be used for expenditures in any redevelopment project area. The Project Income Fund serves as a reserve fund for the redevelopment Agency and is used to assist project areas with insufficient revenues.

In recent years, the Downtown and WLBI Project Areas have transferred the proceeds of land sales into the Project Income Fund. The Project Income Fund has been used to fund operations in the Central Project Area, which did not receive tax increment until the 2003 Fiscal Year.

The amount of money that can be transferred from one project area to another through the Project Income Fund is limited by the amount of project income in a given year. Agency land sales occur infrequently and timing is difficult to predict.

4.14.2.1.3 Investment of Surplus Funds

The Redevelopment Agency has the ability under CRL to invest the project area funds that are not needed in a given year. In the past, the Redevelopment Agency has invested project area funds by loaning them to other project areas. A number of the Redevelopment Agency's Inter-project Loans were created in this way. However, the current City Attorney has taken the position that the Redevelopment Agency should not

loan funds from one project area to another in the future. Staff does not intend to use Inter-project loans to transfer funds from one project area to another.

4.15 Alternative #12 - Transfer Tax Increment from North To Central Without Merging the Project Areas

In recent months, proposals for the North Project Area to share its tax increment with the Central Project Area, without merging the project areas, have been publicly discussed. Staff modeled one scenario at the request of Councilmember Webb and it is included as Table 16. If the City Council and Redevelopment Agency decided to transfer some tax increment from North to Central without merging the project areas how would that be accomplished? The North Long Beach Project Area could pay the Central Project Area's housing set aside obligation. Using this method the North Project Area could provide assistance in the amount of \$485,000 in 2003 (Table 18). The amount of assistance could grow to \$1,324,000 by 2012 as Central set-aside obligation increases. The ten-year assistance from North to Central could be as much as \$9,207,000.

Another proposal is that the North Project Area would transfer all of its Port tax increment to the Central Project Area without a merger. This could be partially accomplished by having the North Project Area pay the housing set-aside for the Central Project Area. However, beginning in 2004 the amount of Port tax increment exceeds the amount of the Central set-aside obligation. To transfer all of the North Port tax increment without a merger an additional method must be used. The second method of assisting the Central Project Area is complex and is described step-by-step below:

1. The North Project Area pays the \$1.5 million housing set-side for the Downtown Project Area.
2. The Downtown Project Area uses the \$1.5 million it had intended to use for housing set-aside to provide a \$1.5 million payment to the General Fund for an existing debt to the City.
3. The City Council loans \$1.5 million to the Central Project Area.

If the North Project Area were to pay the Central housing set-aside obligation and a portion of the Downtown housing set-aside obligation it could provide assistance to the Central Project Area in the amount of the North Port Tax Increment each year (See Table 18). The ten-year assistance total would be \$13.8 million. If the Agency desired to be more generous, North could pay the full housing set-aside for the Central and Downtown Project Areas each year and in so doing provide assistance to the Central Project Area in the amount of \$33 million over 10 years (See Table 18).

4.15.1 Issuing Bonds Without A Merger

Redevelopment Agencies can borrow funds for redevelopment project areas by issuing bonds secured with tax increment. If the project areas were merged, and the Redevelopment Agency allocated an additional \$1 million per year to the Central Project Area, the project area could use the \$1 million per year to borrow at least \$10 million (how much more would depend on the then current interest rate) by selling bonds. If the Central, or any other, project area receives additional tax increment as the result of a merger it can use these additional revenues to borrow money using a bond issue. If the project areas are not merged, Central could still receive additional revenue by having another project area pay its housing set-aside or from loans from the General Fund. However, the Central Project Area could not issue bonds using this additional revenue.

The Redevelopment Agency must adopt a finding each year before it can use that tax increment from one project area to pay the housing set-aside for another project area.

“33334.2 (g) The agency may only use these funds outside the project area upon a resolution of the agency and the legislative body that the use will be of benefit to the project.”

The Redevelopment Agency might desire to have the North Project Area pay the housing set-aside for the Central Project Area for many years; however, a future Agency Board could defeat this policy by refusing to make the required annual findings. Therefore, the Central Project Area could receive assistance from the North Project Area through the housing set-aside payments, but it is not a certain source of funding. The Central Project Area could not sell bonds based on funding from the North Project Area because bond purchasers would not view the funding as sufficiently secure.

An alternative would be for the City of Long Beach to sell bonds and lend the proceeds to the Central Project Area. The City of Long Beach could issue bonds based on the City's ability to pay. However, to prevent a loss to the General Fund, the Redevelopment Agency would agree to use Central Project Area resources to pay the City an amount equal to the debt service on the bonds.

The Redevelopment Agency and the City would enter into a cooperation agreement in which the Redevelopment Agency agrees to provide the General Fund with payments equal to the City's debt service payments for the bonds.

The process would be as follows:

1. The Redevelopment Agency decides to use North tax increment to pay Central housing set-aside.
2. The City agrees to issue bonds and loan the bond proceeds to the Central Project Area.
3. The Redevelopment Agency and City agree that the Central Project Area will provide the City with debt service payments for the bond.
4. The City sells the bonds and loans the funds to the Central Project Area.

5. Each year the North Project Area pays the housing set-aside payment for the Central Project Area if the Agency makes the required findings.
6. The Central Project Area pays to the General Fund an amount equal to the debt service on the City bonds.

Such an arrangement would pose a risk to the General Fund. The General Fund would be responsible for the debt service for the bonds. Should the North Project Area experience financial difficulties, if there were a legal challenge to the transfers, or a future Agency Board decided to end the North Project Area's payment of Central set-aside, the General Fund would bear some or all of the burden of the debt service.

The City would need to hold an election if it were to issue general obligation bonds that pledge General Fund revenues to the bondholders. The City could issue lease revenue bonds without an election. To issue lease revenue bonds, the City would pledge an asset, such as City-owned land or a building, to the bondholders. The City has a very limited number of such assets that can be used for lease revenue bonds. If the City were to issue a lease revenue bond to assist the Central Project Area, it would reduce the City's ability to issue lease revenue bonds in the future for public improvements. The funds lent to the Project Area by the City would be considered bond proceeds and would have to be expended for bond eligible projects.

4.16 Alternative #13 - Acceleration of Downtown Housing Repayment Plan

Project areas adopted before 1976 were originally not required to provide housing set-aside payments. The California Legislature changed this requirement and in 1986 all project areas were required to provide housing set-aside payments. The California legislature recognized that this change could pose a financial hardship for those project areas that had already committed their tax increment revenues to redevelopment projects or bond issues. Project areas that could demonstrate that their pre-1986 obligations met or exceeded their tax increment revenue could defer their housing set-aside payments. A project area's deferral of a housing set-aside payment incurs a debt from the project area to the Redevelopment Agency's housing fund.

The Downtown Redevelopment Project Area deferred its housing set-aside payment for a number of years and currently has a debt to the Housing Development Fund of nearly \$18 million. The Downtown Project Area is currently paying its full housing set-aside. No interest accrues on the outstanding debt. CRL requires redevelopment agencies to adopt housing set-aside repayment plans for every project area with an outstanding debt to its housing fund. The Redevelopment Agency has adopted a Housing Set-aside Repayment Plan for the Downtown Redevelopment Project Area (Appendix E).

The Downtown Redevelopment Plan will expire in 2015. In that year, redevelopment activities in the Downtown Project Area will cease and the Redevelopment Agency will only be able to collect tax increment for the purpose of paying the project area's outstanding debt. Any tax increment in excess of that need for debt repayment will be retained by Los Angeles County and distributed to the other taxing entities. The Downtown Housing Set-aside Repayment Plan states that when the Downtown Redevelopment Plan terminates in 2015, the Redevelopment Agency will use all available tax increment, after the payment of bond debt service, to repay the Housing Development Fund. The Downtown Project Area should be able to repay its Set-aside deferral.

Some have suggested that the Downtown Project Area begin its repayment of the Housing Set-aside Deferral before 2015. The Downtown Project Area could repay the Set-aside deferral before 2015 by paying an additional housing set-aside payment of \$1.4 million each year until 2015.

4.16.1 Advantages and Disadvantages

The primary advantage of accelerating the Downtown Project Area's repayment of deferred set-aside is that it would provide additional funds for the development of affordable housing. The disadvantage of this alternative is that it would worsen the Downtown Project Area's poor financial condition. The Downtown Project Area has a structural deficit. Its expenses exceed its income and the Project Area must reduce its

reserves each year. Staff expects this situation to continue until FY 2005 when the Project Area's income is projected to rise to a level where it will exceed revenues. The Redevelopment Agency has a number of high priority projects that are not being undertaken due to lack of funding. Acceleration of Downtown's housing set-aside repayment would require the cancellation or deferral of important projects.

4.17 Alternative #14 - North Long Beach PAC Merger Parameters

The North Long Beach PAC proposed project merger parameters at their November 2002, meeting. Their proposed parameters follow, along with staff comments:

“The North Long Beach Project Area Committee (NLB PAC) has already explicitly voted against a merger of any project areas. However, if a merger does take place, this Project Area Committee requires the following parameters to be incorporated into any merger agreement.”

“Before any merger of project areas can be considered, it is expected a professional, unbiased independent study of redevelopment in the City of Long Beach be undertaken to include an evaluation of current and historical city redevelopment practices relative to redevelopment practices throughout the state; define best redevelopment practices, planning processes and apply improvements to redevelopment in the City of Long Beach. Ensure active, consistent and extended participation by all stakeholders in the process, especially the public and current redevelopment project area committees. Would recommend study be conducted through the City Auditor’s office for a non-biased and fresh look at redevelopment in the City a likely source of funding is redevelopment funds, since an independent study, overseen by the auditors office, will provide guidelines to improve redevelopment in this city.”

Volume II of this report includes a *Study of Redevelopment* in the City of Long Beach. The study is a brief review of the history and practices of the Redevelopment Agency of the City of Long Beach. Staff believes that the North Long Beach PAC is requesting a study that is more extensive than the one contained in Volume II. PAC members have expressed a desire to have a study prepared by an organization with no financial ties to the Redevelopment Agency. A more detailed description of the Study of Redevelopment envisioned by the North PAC is contained in *Volume V – Public Comment*.

The City Council initially requested that staff prepare the reports in 90 days. During their discussion the view was expressed that the reports should be prepared before the City Council considered the expenditure of \$300,000 for the studies needed to merge the project areas. Staff believes that the study requested by the PAC goes well beyond the direction given to staff by the City Council. Staff estimates from its prior experience with redevelopment strategic plans and project area adoptions, that the study envisioned by the North PAC would cost between \$200,000 and \$400,000 and take at least a year to complete.

If the public and City Council wish to review the best practices of redevelopment agencies throughout California, some are contained in Volume II. Other information on

best practices as well as critical commentaries on redevelopment practices can be found in the following publications:

1. California Debt Advisory Commission, *Recommended Practices for Redevelopment Agencies*, Report CDAC-5, Sacramento, CA, 1995.
2. Beatty, David F. et al, *Redevelopment In California*, Solano Press Books, Point Arena, California, 1995.
3. California Redevelopment Association, *Introduction to Redevelopment*, Sacramento, California, 1996.
4. Diehl, Evans & Company, *Redevelopment Handbook*, Irvine, CA, 2000.
5. California Redevelopment Association, *The Community Guide to Redevelopment*, Sacramento, California, 2002.
6. Municipal Officials for Redevelopment Reform, *Redevelopment: The Unknown Government*, Fullerton, CA, 2001.
7. Los Angeles County Grand Jury, *Report on Redevelopment Agencies in Los Angeles County*, Los Angeles, CA 1994.
8. California Redevelopment Association, *Redevelopment Journal*, CRA, Sacramento, CA, various articles.

It is the desire of staff to recommend to the Redevelopment Agency the best practices to accomplish Agency objectives. Staff consults several of the publications listed above and attends conferences of the California Redevelopment Association in order to keep abreast of the best practices of redevelopment agencies statewide.

“At a minimum, retain existing project areas (see bullet point related to port below) and project area committees, where they now exist, and current project evaluation process, as it exists with project area committees.”

The parameter described above is discussed in the section of this report titled *Alternative #3 – Retain Existing Project Area Committees*.

“The \$36 million bond issuance for the North Long Beach Project Area will remain allocated, to be expended as previously approved by the NLB PAC and the Redevelopment Board.”

The parameter described above is discussed in the section of this report titled *Alternative #6 – Project Areas Keep All Bond Proceeds After a Merger and All Annual Revenues Are Pooled*.

“All non-port tax increment generated within a project area will be prioritized and spent in accordance with the specific strategic plans developed for that purpose, within the project area in which the funds were generated.”

This parameter would require each project area to retain the tax increment it generates except the tax increment generated by the Port. Alternatives for the distribution of the Port tax increment are described in the section of Volume III titled *Alternative #8*.

“The North Long Beach Project Area has identified and documented a minimum \$150 million of need in the project area’s Street Enhancement Master Strategic Plan and has further identified and prioritized numerous, extensive areas and projects to eliminate blight and improve the project area in the approved North Long Beach Strategic Plan. Use of funds from a merger of project areas should not be considered until each project area committee has developed, completed, approved and published strategic plans for their respective project areas. Politics must be removed from the redevelopment process.”

The Redevelopment Agency has adopted strategic plans for the Downtown and North Long Beach Project Areas and staff is working with the Central PAC and WLBI to prepare additional strategic plans. The Central and WLBI strategic plans will be complete within the next 12 months. Los Altos, West Beach and Poly High do not have strategic plans and none are being prepared for those project areas. The implementation of the parameter listed above would delay consideration of a potential project area merger until completion of the Central and WLBI strategic plans. The North Long Beach and Downtown strategic plans identify needs that exceed the project area’s resources. It is likely that the WLBI and Central strategic plans will also identify needs in excess of their resources. If each project area were allowed to keep sufficient resources to complete its strategic plan, then each project area would retain all of its available cash and future revenues.

“Any “merged funds” will be prioritized by a public committee comprised of the chairs and vice chairs of each project area committee who will make formal recommendations for consideration by each project area committee. The project area committees will in turn make formal recommendations to the Redevelopment Agency Board for final consideration and approval.”

The allocation of pooled funds through the use of a ranking process is discussed in the section of this report in Volume III titled *Alternative #4 – Use a Ranking Process to Allocate Tax Increment*.

“Any “merged funds” will bear the same proportional administrative expenses and charges that other project areas are currently charged including costs for RDA staff, economic development, etc.”

Staff assumes that the concern of the North PAC is that a process that transfers a percentage of a project area’s tax increment to a pooled fund would be unfair if all administrative expenses were levied against the portion of the tax increment retained by the project area. This is a very legitimate concern. Charging administrative costs to

only the portion of tax increment retained by a project area would leave very little discretionary money in the project areas. This result could be avoided if each project area's net revenues (after payment of fixed administration and debt service costs) were divided between the project areas and the agency-wide pool. The section of this report titled *Alternative #5 - Each Project Area Keeps a Fixed Portion of Its Revenues* discusses allocating project area net revenues.

"The citywide asset, or port generated funds, would ideally be used to eliminate blighting environmental conditions created by the port that effect portions of a project area. A second, less desirable alternative would be to allocate tax increment generated in the port to all project areas based on the acreage of each project area."

The parameter suggested above is discussed in the section of this report titled *Alternative #8 – Reallocate Port Tax Increment*.

"Merger implementation plans must include all parameters recommended by the project area committees."